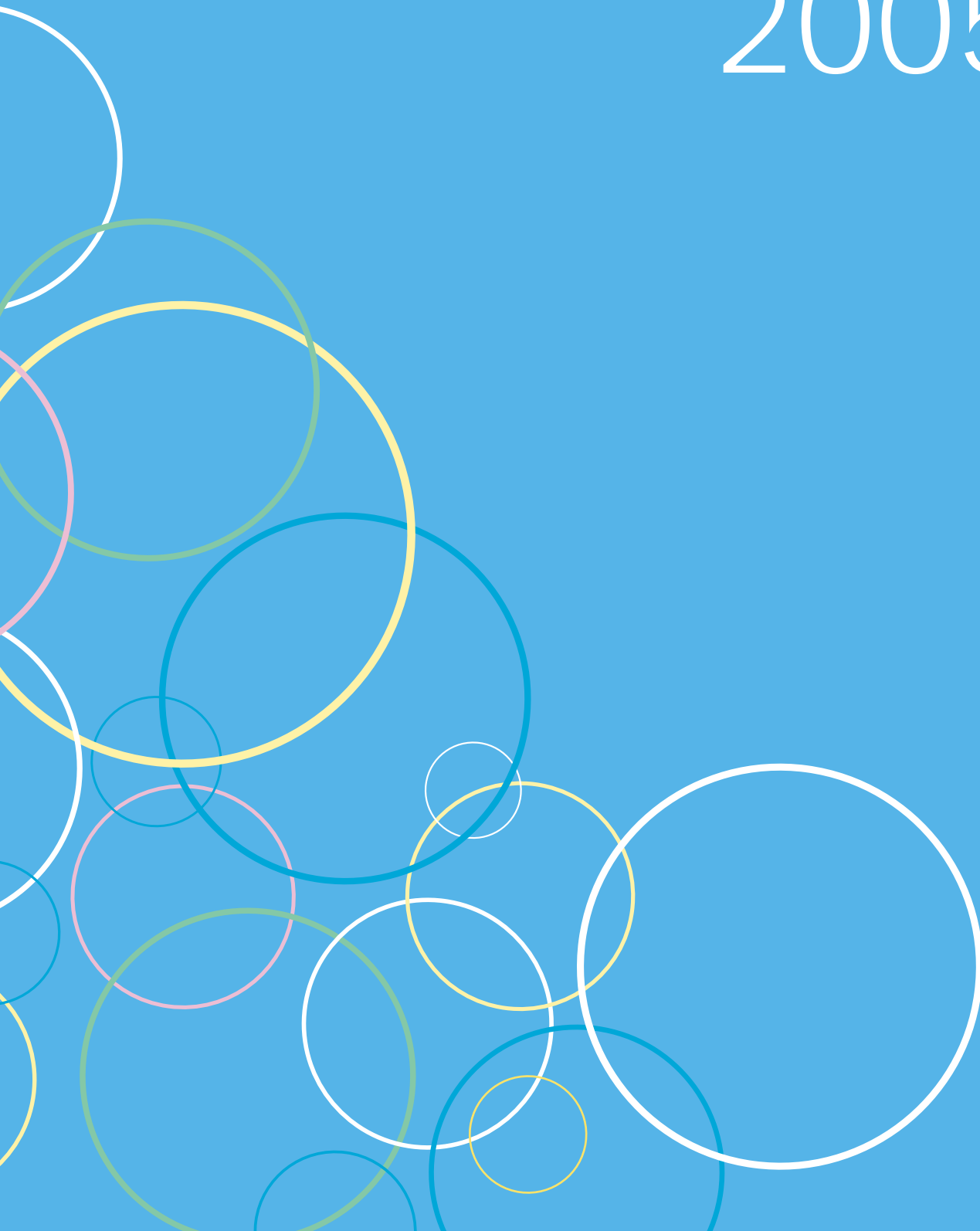


NEXT

Annual Report and Accounts
January 2005

2005



NEXT

CONTENTS

Summary of Performance	1
Chairman's Statement	2
Chief Executive's Review	3
Directors and Officers	9
Directors' Report	10
Corporate Governance	14
Corporate Responsibility Statement	17
Remuneration Report	18
Consolidated Profit and Loss Account	26
Group Balance Sheet	27
Consolidated Cash Flow Statement	28
Company Balance Sheet	29
Accounting Policies	30
Notes to the Accounts	32
Group Companies	50
Independent Auditors' Report	51
Half Year and Sector Analysis	52
Five Year History	53
Notice of Meeting	54
Shareholder Information	61

January 2005 Summary of Performance

"I am pleased to report that NEXT has had another successful year"

- Group turnover increased 13% to £2,858m
- Profit before tax increased 18% to £423m from £358m

"Earnings per share increased by 26% and have continued to be enhanced through share buybacks"

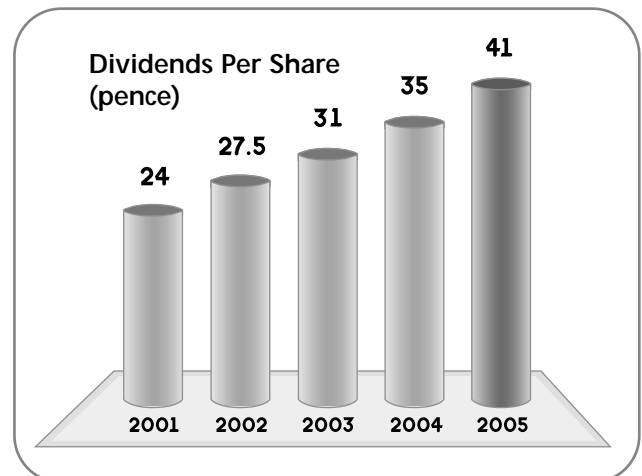
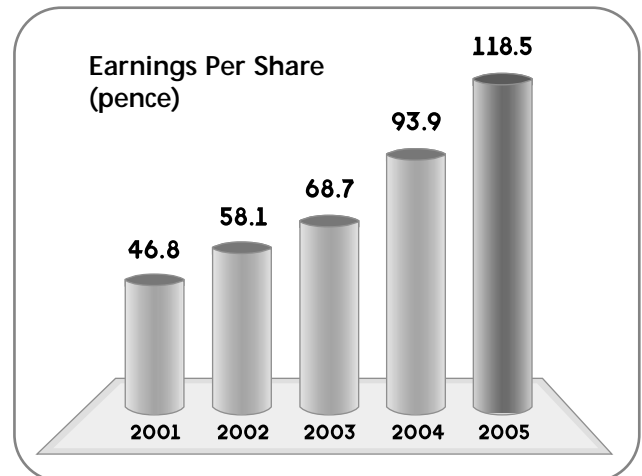
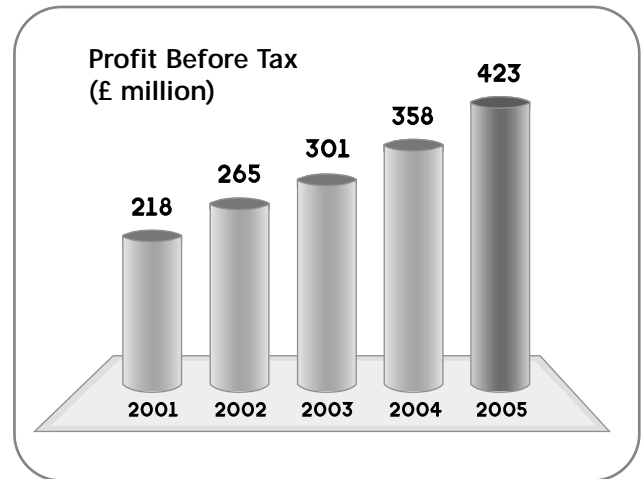
- Dividends for the year increased 17% to 41p from 35p
- Dividend cover rises to 2.9 times

"NEXT has a strong balance sheet and healthy net margins"

- 4 million shares purchased for cancellation during the year at a cost of £57m

"We have continued to expand our store portfolio and the new space has performed well"

"We will continue to focus on delivering the right product ranges to our customers"



Chairman's Statement

I am pleased to report that NEXT has had another successful year, in which we achieved good growth in both sales and profit. Earnings per share increased by 26% and the total dividend rose by 17% to 41p.

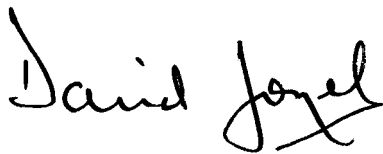
The success of the business has been based on the continued drive to deliver well designed, good quality ranges to our customers. We have continued to offer improved value by passing on the benefits of better buying. Alongside the development of our ranges we have continued to expand our store portfolio, the new space has performed well and has provided an excellent return on the capital invested.

Profits resulting from a successful trading strategy have continued to be enhanced through share buybacks. We began to buy back our shares in March 2000 and since then we have bought and cancelled 113 million shares representing 30% of the shares in issue at that date, at an average price of 797p.

During the year we appointed two new non-executive directors, Jonathan Dawson who joined the Board on 13 May 2004, and Christine Cross who joined on 19 January 2005.

In September of last year we indicated that we expected 2005 to be more challenging. Whilst it is important not to draw too many conclusions from short periods of time, the first seven weeks of the current year would suggest that our caution was well placed. After many years in retail I am acutely aware that over-reaction to a difficult consumer environment can do more damage than the poor environment itself, and I am pleased that NEXT is clear about what needs to be done.

We will continue to focus, first and foremost, on delivering the right product ranges to our customers. We will not be diverted from taking profitable new space and we will make extra efforts to manage our costs without making cuts that may damage the long term prospects of the Company. NEXT has a strong balance sheet, very healthy net margins and is well placed to cope with the challenges of the year ahead. I remain confident that despite challenging trading conditions we will be able to advance both total sales and profits in the coming year.



**David Jones CBE
Chairman**

23 March 2005

Chief Executive's Review

INTRODUCTION

Sales up 13.6%

In the year to January 2005 Group turnover was £2,858m, 13.6% ahead of the previous year. Sales in NEXT Retail were up 13.7% and in NEXT Directory were up 12.9%.

Operating profit up 17.5%

The net margins of the business moved forward mainly as a result of improved buying margins and good control over central overheads, this resulted in operating profits increasing by more than sales at 17.5%. Profits after interest were up 18.1%, a lower tax rate and share buybacks further enhanced earnings per share to give growth of 26.2%.

Earnings per share up 26.2%

Our financial objective is the delivery of long term sustainable growth in earnings per share. The diagram below shows how healthy growth in sales has delivered exceptional growth in earnings per share.



PROFIT AND LOSS ACCOUNT

	Turnover excluding VAT		Profit & Earnings per share		
	2005 £m	2004 £m	2005 £m	2004 £m	
NEXT Retail	2,057.6	1,809.3	307.4	259.4	
NEXT Directory	602.6	533.7	89.5	77.0	
				Restated	
The NEXT Brand	2,660.2	2,343.0	396.9	336.4	
NEXT Sourcing	20.2	17.6	28.5	23.7	
NEXT Franchise	33.5	28.8	6.0	5.3	
Ventura	131.8	112.0	12.9	15.4	
Other activities	12.8	14.6	(1.8)	(5.1)	
Share option charge	-	-	(1.4)	(0.2)	
Turnover & operating profit	2,858.5	2,516.0	441.1	375.5	+17.5%
Interest expense			(18.2)	(17.3)	
Profit before tax			422.9	358.2	+18.1%
Taxation			(121.9)	(108.1)	
Profit after tax			301.0	250.1	+20.4%
Earnings per share			118.5p	93.9p	+26.2%

Chief Executive's Review

STATEMENT OF FINANCIAL OBJECTIVE

The financial objective of the NEXT Group is to maximise sustainable long term growth in earnings per share. We aim to achieve this in our operating businesses in the following ways:

- Improving and developing NEXT **product ranges**
- Profitably increasing NEXT **selling space**
- Increasing the number of customers shopping from home with the **NEXT Directory**
- **Buying back shares** for cancellation as and when it is in the interests of our shareholders generally

Opportunity to grow sales and profits

We explained last September that we felt that the retail environment would be more challenging for NEXT in 2005. We are still very cautious about the outlook for consumer spending; however we believe that NEXT will continue to grow both its **sales** and **profits** in the year ahead even though achieving underlying like-for-like growth may be challenging.

THE DEVELOPMENT OF NEXT PRODUCT RANGES

Improving style, quality and value

NEXT's approach to improving value is simple: as long as we can maintain our profitability then we will pass on the benefits of improved buying to our customers. Over the last year we have continued to make significant advances in sourcing and this, combined with a weaker dollar, has enabled us to pass on noticeable improvements in value to our customers without sacrificing gross margin.

Outlook for improving value in 2005/6

Quality & design more important

We will continue, where trading conditions permit, with our drive to deliver better value products to our customers. Although price remains important we believe that improving quality and design will be more important to the consumer for the Autumn Winter season.

THE DEVELOPMENT OF NEXT RETAIL

Rationale for space expansion

We have made excellent progress in the acquisition of profitable new space. Most of this growth has come from retail parks on the edge of, or out of, town. In these locations we have sufficient critical mass with Womenswear, Menswear, Childrenswear and Home to make a real difference to the popularity of the parks we go onto.

The acquisition of new space remains governed by strict financial criteria. Every new store aims to pay back the net capital invested in less than 24 months and to achieve at least 15% store profit on sales before distribution and central costs. When appraising new stores we account for downturn in neighbouring stores and do not factor in any future like-for-like growth. The store must achieve the investment criteria based on its expected first year sales.

Sales from new space exceeding target by 11%

Performance of new space

New space opened during the year is exceeding its appraised sales target by 11% and is forecast to pay back the net capital invested in 15 months.

Chief Executive's Review

Profile of new space

During the year we added a net 483,000 square feet to our trading space, increasing the total by 17% to 3,327,000 square feet. The table below shows how our store portfolio has changed over the last three years.

Store Size (square feet)	Number of Stores			% of Selling Space		
	2005	2004	2003	2005	2004	2003
Less than 5,000	152	166	182	14%	18%	23%
5,000-10,000	112	99	96	25%	26%	29%
10,000-15,000	61	45	34	22%	19%	18%
15,000-20,000	29	25	19	15%	15%	14%
Greater than 20,000	30	23	13	24%	22%	16%
TOTAL	384	358	344			

Deflection and like-for-like sales

**Underlying
like-for-like
sales
up 3.6%**

NEXT defines like-for-like stores as those that have traded for at least one full year and have not benefited from significant capital expenditure. Inevitably this includes all those stores that have been adversely affected by new openings. Total like-for-like sales for the year were up 1.4% whilst those stores unaffected by new openings were up 3.6%.

When preparing our budgets or analysing the performance of our ranges we focus on the true like-for-like sales before deflection. If we were to use total like-for-likes as a measure of success, it would discourage us from acquiring profitable new space.

Putting profit first

NEXT is aware that some commentators use total like-for-like sales as the key measure of retail success. Indeed some reports do not mention total sales growth or growth in earnings per share. Nonetheless, it would not be logical to allow this potential for adverse publicity to inhibit our efforts to acquire profitable new space, which will continue.

New space in the year ahead

**Increase
net selling
space**

We currently expect to increase net selling space by at least 800,000 square feet in the year ahead, significantly more than was achieved in each of the last two years.

We believe that taking new space in a potentially difficult year is the right strategy, as long as the space we are taking is the right space. A lease commitment is rarely for less than fifteen years, so the economic environment in any one particular year should not be the determining factor when considering a new store. In this respect, it is an important feature of our appraisal process that we do not assume any like-for-like growth when considering a new site.

Trial store in Denmark

Last year we opened a trial store in Copenhagen. After one full year the forecast ongoing profitability of the store before central overheads is 5% and the payback on capital invested is 52 months. Clearly neither the return on capital nor the profitability satisfies our appraisal criteria. Whilst the store is not yet successful enough to warrant any roll out, it is sufficiently profitable to justify continuing our trial in Denmark.

THE DEVELOPMENT OF NEXT DIRECTORY

**14.8%
growth in
Directory
customers**

Growing the customer base

The growth in new customers has been the most significant contributor to the growth of sales in our home shopping division. We start the new year with 14.8% more customers than a year ago.

	January 2005	January 2004	Growth
Total active customers	1,905,000	1,660,000	14.8%

Chief Executive's Review

Expansion of pages and product offer

Growth in pages has been more limited and we do not foresee the opportunity to significantly increase the Directory product offer in the coming year.

Pages	2005	2004	Growth
Womens	906	890	+2%
Mens	534	490	+9%
Childrens	448	476	-6%
Home	712	652	+9%
TOTAL	2,600	2,508	+4%

Increasing importance of the Internet

Internet takes 30% of Directory orders

The Internet continues to grow in importance to the Directory, both as a method of recruitment and as a sales vehicle. We currently take more than 30% of our orders this way and envisage that its participation will grow in the future. In the coming year we estimate sales over the Internet will be in the region of £200m. However, the vast majority of Internet customers use the Directory to select garments then use the Internet to order and manage their accounts. We believe we can further develop our website, in particular through the addition of much improved search facilities.

WAREHOUSE INVESTMENT

During the year we extended and consolidated our warehousing for palletised stock to accommodate the growth in our home furnishings business. This involved the successful commissioning of a 600,000 square foot warehouse with a capital spend of £10m.

Warehouse development 2005/6

Increased capacity for boxed and palletised product

By the end of the year our boxed and palletised warehouses were working to their maximum capacity and this produced a significant strain on warehouse operations. In August of this year we expect to further increase capacity in both boxed and palletised warehousing.

We will open the highly mechanised extension to our boxed warehouse which is being fitted out at a cost of £40m. We will also lease a 500,000 square foot warehouse for palletised product with a fit out cost of circa £4m. The opening of these facilities will result in a rise in our fixed costs of approximately £5m per annum, but are necessary to support continued growth.

Outlook for warehousing 2006/7

In 2006 we expect to open the extension to our bulk storage of hanging garments. The capital expenditure for this project will be in the order of £10m, some of which will be spent in the year ahead.

Beyond 2006/7

By 2008 we anticipate we will need to spend a further £50m opening additional boxed and palletised warehouses. The timing of this will depend very much on the growth of the business between now and then, as yet we have made no commitments in respect of this potential investment.

Average selling price and warehouse requirements

The decreases we have achieved in average selling prices over the last few years have placed particular pressure on warehouse operations, as unit sales have grown faster than cash revenue. In the Autumn Winter 2005 season we will be focusing more on improving quality than reducing prices, so we expect the rate of growth in units to be more in line with sales growth going forward.

Chief Executive's Review

Next Sourcing competes with third parties

NEXT SOURCING

We have merged NEXT Asia and NEXT Near East into one overseas sourcing operation, and renamed it NEXT Sourcing Limited (NSL). In Hong Kong, Turkey, Sri Lanka, Romania and other locations we now employ over 1,000 people engaged in the design, sourcing, buying, merchandising and quality control of NEXT products. In Sri Lanka NSL owns and operates a garment sewing factory which employs a further 2,000 people.

NSL operates as a profit centre and must compete on an even footing with other factories and independent sourcing offices. It charges commission on the product it sources, operating costs are deducted and the balance is reported as profit. This year NSL profits amounted to £28.5m compared with £23.7m last year. We are not budgeting for a significant change in NSL profits for the coming year, as any increase in turnover is likely to be offset by the cost of developing the new structure.

NEXT FRANCHISE

Our overseas franchise operation had another successful year, with sales increasing by 16.4% and profit by 13.6% at £6m. At the end of January 2005 there were 80 franchise stores compared with 70 the previous year. The Middle East continues to be our largest region with 32 stores. Our partner in Japan now has 24 stores.

VENTURA

At the beginning of the last financial year we indicated that we expected Ventura's profit to fall back significantly as a result of re-negotiating its biggest contract to a much more competitive margin. This affected the last six months of the financial year. The detrimental effect of this re-negotiation was to some extent mitigated by better than expected growth in new business. As a result Ventura achieved profits of £12.9m as against £15.4m last year.

Ventura currently subcontracts some work to a partner in India. We believe that, in the long run, we cannot be reliant on third parties for what is an increasingly important resource for Ventura. As a result we will be opening our own call centre in Pune, near to Mumbai. Capital investment will be in the order of £8.5m. It is anticipated that both NEXT Directory and Ventura will be operating out of this facility by the end of the current year.

Broad client base and competitive pricing

Ventura now has a broad client base and its services are priced competitively. However, much of our revenue is dependent on the underlying growth of our clients' businesses. Given our caution about the general economy we remain cautious for Ventura's underlying prospects in the year ahead. As a result of this, and approximately £2m of start up costs for the Indian call centre, we expect Ventura's profit for the coming year to be in the order of £10m.

OTHER ACTIVITIES

The Other Activities charge was £1.8m. Other activities include our Property Management Division, Choice (an associated company which operates a chain of fourteen discount stores), Cotton Traders (an associated company selling its own brand products) and Central Costs, the largest element of which is a pension charge.

The total cost of the Group's pension schemes increased to £18.6m from £17.6m last year, including a charge of £5m in respect of the past service deficit. We estimate that the year end deficit was £44m, unchanged from last year. During the year the Company made additional cash contributions of £7.5m and we expect these further contributions to continue for the foreseeable future.

Over 9,500 employees have share options

SHARE OPTIONS

Over 9,500 of our employees currently hold options over almost 10 million shares in NEXT. Our employee share ownership trust purchases shares in the market and issues them to employees when options are exercised. It currently holds 9 million shares. Our main employee share scheme, which was first approved by shareholders in 1995, is due for renewal and a resolution will be put to this year's AGM.

Due to a change in accounting standards we are required to recalculate the charge for share options. This results in reducing the previous year's charge of £5.1m down to £0.2m and a charge for the year just ended of £1.4m. For the coming year, accounting standards are changing again and, whilst we can not yet be certain of the impact, we currently anticipate a charge in the region of £7m.

Chief Executive's Review

SHARE BUYBACKS

Another 1.5% purchased and cancelled During the year we purchased a further 4 million shares for cancellation at an average price of 1444p, for a cash cost of £57m. This was 1.5% of the shares in issue at the beginning of the year. We intend to continue with our strategy of buying back shares as and when it is in the interests of shareholders generally.

Share buybacks are not made at the expense of capital investment in the business. The primary use of capital will continue to be investment in the development of the core businesses and we aim to maintain the Company's investment grade credit rating.

BALANCE SHEET AND CASH FLOW

At January 2005 net borrowings were £250m compared with £306m the previous year. The cash inflow of £56m was after the £57m cost of shares purchased for cancellation. Borrowings are financed through a £300m 5.25% 10 year bond, which was issued in June 2003, and medium term bank facilities. The majority of our borrowings are at fixed interest rates and therefore, at current levels of debt, any rate changes in the medium term will not have a significant impact on our cost of borrowing.

Capital expenditure amounted to £144m, of which £97m was spent on stores and £36m on warehousing. Stock levels at £302m were broadly in line with our requirements. Debtors of £436m include the £311m account balances of our Directory customers.

DIVIDEND

Dividend increase 17% The Directors recommend a final dividend of 28p against 24p last year, bringing the total for the year to 41p compared with 35p last year, an increase of 17%. The dividend is covered 2.9 times by earnings per share of 118.5p.

CURRENT TRADING

Current trade

For the seven weeks to 20 March, NEXT Retail sales are 8.2% ahead of the previous year. Like-for-like sales in the 279 stores which have been trading for at least one year and have not been affected by the opening of new space are down 0.9%. Like-for-like sales in the 333 stores including those which, as planned, have been impacted by the opening of new space are 3.5% below last year.

NEXT Directory sales for the seven weeks are 10.4% ahead of the previous year.

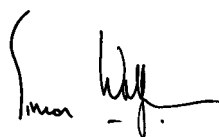
Taken together, sales for the NEXT Brand are 8.8% ahead.

Outlook

Response to tougher times Whilst there are parts of our ranges that we believe could be better, we think that the poor performance during the last seven weeks is indicative of an underlying easing of consumer demand. As we indicated in September 2004, we anticipated a more challenging consumer environment in the current year and do not foresee any significant economic improvement for at least six months. We are clear about what our response to the challenge of a tougher environment will be:

- We will continue to focus on delivering well designed, good quality clothing and where possible pass on the benefit of better buying to the consumer. However, increasing fixed costs will require a more conservative approach to selling price reductions.
- We will continue to invest in profitable new space where our strict investment criteria are met.
- We will place even greater emphasis on controlling costs in the business but will not sacrifice the long term prospects of the Company in return for short term cost savings.

Our next trading statement will be made on 18 May 2005, which is the date of our Annual General Meeting.



Simon Wolfson

23 March 2005

Directors and Officers

CHAIRMAN OF THE BOARD

David Jones CBE

Aged 62
Joined the Group and was appointed to the Board in 1986. Appointed Chief Executive in 1988 and became Deputy Chairman in 2001 and Chairman in 2002. Previous experience includes twenty years in a large home shopping and consumer services group and five years as Chief Executive of a UK listed home shopping plc. He is also a non-executive director of Wm. Morrison Supermarkets plc, Aggregate Industries plc and Leicester Football Club plc.

EXECUTIVE DIRECTORS

Simon Wolfson, Chief Executive

Aged 37
Joined the Group in 1991. Appointed Retail Sales Director in 1993, became responsible for NEXT Directory in 1995 and was appointed to the Board in 1997 with additional responsibilities for systems. Appointed Managing Director of the NEXT Brand in 1999 and Chief Executive in 2001.

Christos Angelides, Group Product Director

Aged 41
Joined the Group in 1986 and was appointed General Manager of the Company's sourcing office in Hong Kong in 1989, Menswear Product Director in 1994 and Womenswear Product Director in 1998. Appointed to the Board in 2000.

David Keens, Group Finance Director

Aged 51
Joined the Group in 1986 and was appointed to the Board in 1991. Previous experience includes seven years in the accountancy profession and nine years in the UK and overseas operations of multi-national manufacturers of consumer goods.

Andrew Varley, Group Property Director

Aged 54
Joined the Group in 1985 and was appointed to the Board in 1990. Previous experience includes twelve years in retail and commercial property.

BOARD COMMITTEES

Audit Committee

D N D Netherton (Committee Chairman)
R J O Barton
N G Brookes
C Cross
J D S Dawson

This committee reviews the Group's internal control, accounting policies and financial reporting.

Remuneration Committee

R J O Barton (Committee Chairman)
N G Brookes
C Cross
J D S Dawson
D N D Netherton

This committee sets the remuneration of the Group's executive directors.

Nomination Committee

D C Jones (Committee Chairman)
R J O Barton
N G Brookes
C Cross
J D S Dawson
D N D Netherton

This committee considers the appointment of the Group's directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

John Barton, Deputy Chairman and Senior Independent Non-Executive Director

Aged 60
Became a member of the Board in 2002. He is also Chairman of Wellington Underwriting Plc and a non-executive director of Hammerson Plc and WH Smith Plc. Formerly Chief Executive of JIB Group Plc for thirteen years and Chairman of Jardine Lloyd Thompson Group Plc for five years.

Nick Brookes

Aged 54
Became a member of the Board in 2003. He has held a number of directorships within the British American Tobacco Plc group, was Company Secretary and most recently Regional Director, America Pacific. Previous experience includes a career in the legal profession and operational roles in Africa and the USA.

Christine Cross

Aged 53
Became a member of the Board in January 2005. She is also a non-executive director of George Wimpey plc and Sobeys Inc (Canada). Previous experience includes fourteen years at Tesco plc and fifteen years lecturing and consulting at Edinburgh and Bath Universities.

Jonathan Dawson

Aged 53
Became a member of the Board in May 2004. He is also a non-executive director of Galliford Try plc and a senior advisor to Apax Partners' financial services team. Previous experience includes eight years in the Ministry of Defence and twenty years in investment banking with Lazard.

Derek Netherton

Aged 60
Became a member of the Board in 1996. He is also Chairman of Greggs Plc and a non-executive director of Hiscox Plc and St. James's Place Capital Plc. Formerly a director of J. Henry Schroder Co. Limited.

Company Secretary

A J R McKinlay

Registered Office

Desford Road, Enderby,
Leicester, LE19 4AT
Registered in England, no. 4412362

Registrars

Lloyds TSB Registrars,
The Causeway,
Worthing, West Sussex, BN99 6DA

Auditors

Ernst & Young LLP

Merchant Bankers

Lazard & Co., Limited

Stockbrokers

UBS Limited

Directors' Report

The directors have pleasure in presenting their annual report and audited accounts for the period ended 29 January 2005.

Principal activities

The principal activities of the Group are retailing, home shopping and customer services management.

Review of operations

Group results are summarised in the consolidated profit and loss account on page 26. The amount of profit transferred to reserves for the year was £198.0m. Turnover and operating profit of the Group are shown in greater detail in the analysis on page 32. The Chief Executive's Review on pages 3 to 8 gives details of the Group's operations.

Dividends

The directors recommend that a final dividend of 28p per share be paid on 1 July 2005 to shareholders on the register of members on 27 May 2005. The Trustee of the NEXT Employee Share Ownership Plan Trust (ESOP) has waived dividends paid in the year on shares held by the ESOP, see Note 25.

Share Capital

The Company was authorised by its shareholders to purchase the Company's own shares for cancellation. During the year the Company purchased a total of 3,967,421 ordinary shares of 10p each for cancellation at a cost of £57.3m, representing 1.5% of its issued share capital. The authority to purchase shares is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2005 to renew the authority.

On 29 January 2005 the Company had 261,103,082 shares in issue. Since that date the Company has continued to purchase shares off-market under contingent purchase contracts. As at 21 March 2005, the Company had purchased and cancelled a further 750,000 shares at a cost of £11.9m, representing 0.3% of its issued share capital.

Supplier payment policy

The Group's policy for the payment of suppliers is either to agree terms of payment at the start of business or to ensure that the supplier is aware of the Group's payment terms. Payment is made in accordance with contractual and other legal obligations. Trade creditor days of the Group at 29 January 2005 were 27 days (2004: 26 days) based on the ratio of trade creditors at the end of the year to the amounts paid during the year to trade creditors. The Company had no trade creditors at 29 January 2005 or 31 January 2004.

Treasury operations and financial instruments

NEXT operates a centralised treasury function, which is responsible for managing the liquidity, interest rate and foreign currency requirements of the Group. Its activities are governed by policies approved by the Board.

Liquidity management

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses. Investments of cash surpluses are made through banks and companies which must fulfil credit rating and investment criteria approved by the Board. Borrowing requirements are supported by committed bank facilities of £300m as at 29 January 2005 (2004: £350m). At the year end, the Group had net borrowings of £250.8m (2004: £306.9m). In 2003, the Group issued a £300m 5.25% bond repayable in 2013, see Note 17.

Interest rate management

The Board has approved the use of interest rate swaps, options, forward rate agreements and other similar instruments to manage interest rate exposures on its cash and borrowing position. In 2003 the Group entered into transactions to fix interest rates on £250m of its borrowings which continued throughout the year under review.

Foreign currency management

The Group's principal foreign currency exposures arise from the purchase of overseas sourced products. Group policy allows for but does not demand that these exposures may be hedged for up to 24 months ahead in order to fix the cost in sterling. This hedging activity involves the use of spot, forward and option contracts.

Directors' Report

No recognition is made of accrued but unrealised gains or losses on currency instruments until the relevant contract is concluded. All premiums or costs paid in respect of currency instruments are charged to the profit and loss account when incurred and receipts are not recognised until maturity and settlement has occurred.

The Group does not have a material exposure to currency movements in relation to translation of overseas assets or liabilities and, consequently, does not hedge any such exposure.

Employees

The Group has continued its policy of providing employees with information about the Group and ensures that the suggestions and views of employees are taken into account. A pension scheme and Sharesave share option scheme are available to all United Kingdom and Eire employees.

Every possible consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. The Group has continued the employment wherever possible of any person who becomes disabled during their employment. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

Donations

During the year the Group made charitable donations of £708,000 (2004: £393,000). No donations were made for political purposes.

International Financial Reporting Standards

The Group is required to prepare its financial statements for the year ended January 2006 and all subsequent periods in accordance with International Financial Reporting Standards ("IFRS"). This will require an opening balance sheet as at 1 February 2004 to be prepared under IFRS, together with a full profit and loss account, balance sheet and cash flow statement for the year ended January 2005 for comparative purposes. The Group intends to publish these restated figures in advance of the announcement of its first IFRS results for the six months ended July 2005.

The review of the impact of the change to IFRS has continued during the year. The principal adjustments to the Group's financial statements are expected to arise from changes to accounting for financial instruments, operating lease incentives, share based payments, goodwill, pensions, deferred taxation and the presentation of dividends.

Substantial shareholders

As at 21 March 2005 the following notifications had been received from holders of material interests in 3% or more of the Company's issued share capital as shown:

	No. of 10p ordinary shares	%
Fidelity Investments	20,767,027	7.95
Barclays plc	15,624,768	5.98
Legal & General	11,657,875	4.46
Lone Pine Capital	11,064,082	4.24
Credit Suisse First Boston	10,834,883	4.15
UBS AG	9,951,748	3.81
Lloyds TSB Group	8,167,179	3.13

Directors

The current Board is shown on page 9 of this Report. Mr Dawson and Mrs Cross were appointed to the Board on 13 May 2004 and 19 January 2005 respectively and both will retire in accordance with the Company's Articles of Association. Mr Wolfson and Mr Varley will retire by rotation. All are eligible and willing to be reappointed.

Mr Mitchell-Innes and Ms Burdus retired from the Board at the conclusion of the Annual General Meeting on 13 May 2004.

The interests of the directors who held office at 29 January 2005 and their families are shown in the Remuneration Report on page 25.

Directors' Report

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Group and their reappointment will be proposed at the Annual General Meeting.

Annual General Meeting

The following resolutions will be proposed at the Annual General Meeting, notice of which is on pages 54 to 60.

Share option schemes

The management share option scheme was approved by shareholders in 1995 and expires in May 2005. The scheme provides for options over shares, normally exercisable between three and ten years following their grant, to be granted to Group employees at the discretion of the Board.

The scheme has proved to be a very effective incentive to NEXT's employees, who have contributed significantly to its success over the last decade. Accordingly, resolution 9 proposes the adoption of a broadly similar scheme after considering changes in legislation, practice and institutional share scheme guidelines. A summary of the proposed plan is set out in Appendix 1 to the Notice of the Annual General Meeting.

In addition, it is proposed that the Board should be authorised to make appropriate arrangements for similar schemes for overseas employees, having regard to local legislation.

Since 1997, NEXT's policy has been that its directors and senior management who participate in the Long Term Incentive Plan have not been granted options under the management share option scheme. This principle is written into the rules of the proposed plan, which is an incentive scheme for NEXT's middle management and senior store employees.

Copies of the draft rules for the proposed plan may be inspected at the registered office of the Company, and at the offices of the Company's advisers, New Bridge Street Consultants, 20 Little Britain, London EC1A 7DH during normal working hours up to and including the date of the Meeting and at the Meeting itself.

Renewal of authority to allot shares

Ordinary resolution 10 will renew the directors' authority pursuant to Section 80 of the Companies Act 1985 to allot shares. The nominal value of ordinary shares which the directors may allot in the five year period from the date of the Annual General Meeting pursuant to this authority is limited to £8,500,000. The directors do not have any present intention of exercising this authority.

Special resolution 11 will renew the directors' authority pursuant to Section 95 of the Companies Act 1985 to issue ordinary shares wholly for cash without first offering them to existing shareholders in proportion to their holdings. This resolution limits the nominal value of ordinary shares which may be issued by the directors to 5% of the issued ordinary share capital in conformity with the guidelines of the Association of British Insurers. This authority also allows the directors, within the same aggregate limit, to sell for cash shares that may be held by the Company in treasury. The directors have no present intention of exercising this authority. This authority will expire on 18 May 2010.

On-market purchase of own shares

Special resolution 12 will renew the authority for the Company to make market purchases (as defined in Section 163 of the Companies Act 1985) of the Company's ordinary shares of 10p each provided that:

- (a) the aggregate number of ordinary shares authorised to be purchased shall be the lesser of 39,000,000 ordinary shares of 10p each or no more than 15% of the issued ordinary share capital outstanding at the date of the Annual General Meeting, such limits to be reduced by the number of any shares purchased pursuant to special resolution 13: Contingent contracts and off-market share purchases, see below;
- (b) the payment per ordinary share is not less than 10p and not more than 5% over the average of the middle market price of the ordinary shares according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase, and;
- (c) the renewed authority expires on whichever is the earlier of 18 months after the date on which the resolution is passed or at the conclusion of the next Annual General Meeting of the Company in 2006.

Directors' Report

The repurchase of ordinary shares would give rise to a stamp duty liability at the rate of 50 pence per £100 or part thereof of the consideration paid by the Company. The liability will be a liability of the Company.

The directors intend that this authority to purchase the Company's shares will only be exercised if doing so will result in an increase in earnings per share and it is considered to be in the interest of shareholders generally. Shares purchased under this authority will be cancelled or, if the directors consider appropriate, held in treasury.

Contingent contracts and off-market share purchases

Following shareholder authority granted at the November 2004 Extraordinary General Meeting, the Company entered into two contingent purchase contracts and as at 21 March 2005 had bought back off-market a total of 1,200,000 ordinary shares for cancellation at a total cost of £19.0m. Under these contracts, and subject to a pre-determined barrier share price level not being reached, the Company will make further purchases of up to 1,150,000 shares for cancellation.

Special resolution 13 will give the Company authority to enter into further contingent purchase contracts with each of Goldman Sachs International, UBS AG and Deutsche Bank AG under which shares may be purchased off-market at a discounted price to the market price prevailing at the date each contract is entered into.

The principal features of these contracts are set out in Appendix 2 to the Notice of the Annual General Meeting. Copies of each contract will be available for inspection at the registered office of the Company, and at the offices of the Company's legal advisers, Eversheds, Senator House, 85 Queen Victoria Street, London EC4V 4JL during normal working hours up to the date of the Annual General Meeting and at the Meeting itself.

The directors consider that these contracts will enhance the Company's flexibility to purchase its shares for cancellation and will only use such contracts if it would be earnings enhancing and in the best interests of shareholders generally.

Change in Articles of Association

Special resolution 14 seeks shareholder authority to amend Article 141 of the Company's Articles of Association to reflect changes made to Section 310 of the Companies Acts (Indemnities for Directors), as from 6 April 2005. An explanatory note on these changes is set out in Appendix 3 to the Notice of the Annual General Meeting.

By order of the Board

A J R McKinlay
Secretary

23 March 2005

Combined Code compliance

The Group has complied throughout the year under review with the provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance, other than certain aspects of directors' notice periods which were brought into compliance with the Code during the year.

The Board of Directors

The Board is responsible for major policy decisions whilst delegating more detailed matters to its committees and officers including the Chief Executive. The Board is responsible for the Group's system of internal control and for monitoring implementation of its policies by the Chief Executive. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board holds regular meetings where it approves major decisions, including significant items of capital expenditure, investments, treasury and dividend policy. The Board is responsible for approving semi-annual Group budgets. Performance against budget is reported to the Board monthly and any substantial variances are explained. Forecasts of each half year's anticipated results are revised and reviewed monthly. Certain other important matters are subject to monthly reporting to the Board or Board Committee, including treasury operations and capital expenditure.

The Board held nine formal meetings during the year. All directors were present at all nine meetings, with the exception of Mr Varley, who attended eight meetings, and Mr Dawson and Mrs Cross who were present at all meetings which took place after the date of their appointments (six and one respectively). Mr Mitchell-Innes and Mrs Burdus both attended all three Board meetings that took place prior to their retirement. All directors are required to submit themselves for re-election by shareholders at least once every three years.

Board papers including reports from the Chief Executive and Finance, Property and Product Directors are circulated in advance of each Board meeting. There is a regular flow of written and verbal information between all directors irrespective of the timing of meetings. Induction is provided to new appointees to provide an introduction to all major areas of the business, and training is provided where a need is identified or training requested.

The Board includes five independent non-executive directors who bring considerable knowledge, judgement and experience to the Group. Terms and conditions of appointment of non-executive directors are available for inspection at the Annual General Meeting, or at the Company's registered office during normal business hours. Meetings of the non-executive directors without the executive directors being present are held at least annually, both with and without the Chairman.

The Board has appointed committees to carry out certain of its duties, three of which are detailed below. Each of these Committees is chaired by a different director and has written terms of reference which are available for inspection on the Company's website or on request. Authority for day to day management of the Group is delegated to other committees.

The Company Secretary attends all Board meetings and is responsible for advising the Board on corporate governance matters and facilitating the flow of information within the Board.

Audit Committee

The Committee consists of five independent non-executive directors including the senior non-executive director and at least one member with recent and relevant financial experience.

The Committee holds regular, structured meetings and consults with external auditors and senior management where appropriate. Three meetings were held during the year and all were fully attended with the exception of one which Mr Barton was unable to attend. The Committee reviews the effectiveness of the risk management process and significant risk issues are referred to the Board for consideration. The Committee also considers financial reporting and reviews the Group's accounting policies and annual statements. In particular, any major accounting issues of a subjective nature are discussed by the Committee.

Remuneration Committee

The Committee consists of five independent non-executive directors, including the senior non-executive director. The Committee determines the remuneration of the executive directors and reviews that of senior management. A Remuneration Report is included in this Annual Report. Four meetings were held during the year and all were fully attended.

Nomination Committee

The Committee consists of the Chairman and five independent non-executive directors, including the senior non-executive director. The Committee meets as required to fulfil its duties of reviewing the Board structure and composition and identifying and nominating candidates to fill Board vacancies as they arise. Four meetings were held during the year and all were fully attended.

Corporate Governance

External consultants are used to assist in identifying suitable candidates, based on a written specification for each appointment. The Chairman, together with other committee members, prepares a shortlist of candidates for consideration by the Board. The final candidate is then subject to formal nomination by the committee and approval by the Board.

Chairman

The Company maintains a division of responsibilities between the offices of Chairman and Chief Executive, which is set out in writing and agreed by the Board. The Chairman manages the Board to ensure that the Group has appropriate objectives and an effective strategy; that there is a Chief Executive with a team of executive directors able to implement the strategy; that there are procedures in place to inform the Board of performance against objectives; and to ensure the Group is operating in accordance with a high standard of corporate governance.

The current Chairman was an executive director of the Group (formerly the Chief Executive) with relevant experience in the management of the business. Consultation was carried out with major shareholders in advance of his appointment to Deputy Chairman in 2001 and Chairman in 2002.

The Chairman's other significant commitments are noted on page 9. The Board considers that these are not a constraint on the Chairman's agreed time commitment to the Company.

Chief Executive

The Board sets objectives and annual targets for the Chief Executive to achieve. The Board is responsible for general policy on how these objectives are achieved and delegates the implementation of that policy to the Chief Executive. The Chief Executive is required to report at each Board meeting all material matters affecting the Group and its performance.

Management delegation

The Chief Executive has delegated authority for the day to day management of the business to operational management drawn from executive directors and other senior management who have responsibility for the respective areas. The most important management meeting is the weekly NEXT Brand trading meeting which considers the performance and development of the NEXT Brand through its different distribution channels. It considers all business aspects of risk management in respect of the NEXT Brand including product, sales, property, warehousing, systems and personnel. Key performance indicators are monitored daily and weekly.

Performance evaluation

The performance of the Board, its non-executive directors and sub-committees was formally evaluated during the year. The evaluation was conducted by means of a detailed questionnaire completed by all directors. The results of this questionnaire were compiled by the Company Secretary for review by the Chairman and the Board as a whole. The senior independent non-executive director appraises the performance of the Chairman through discussions with all the directors individually, and together with the Chairman appraises the performance of the Chief Executive. The performance of the executive directors is monitored throughout the year by the Chief Executive and the Chairman.

Risk management

The Board is responsible for the Group's risk management process and has delegated responsibility for its implementation to the Chief Executive and senior management best qualified in each area of the business. The Board sets guidance on the general level of risk which is acceptable and has a considered approach to evaluating risk and reward.

The Board confirms that it has carried out a review of the effectiveness of the Group's system of internal control covering financial, operational, compliance and other controls and risk management. This includes identifying and evaluating key risks, determining control strategies for these risks and considering how they may impact on the achievement of the business objectives. The risk management process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts and it is in accordance with the guidance 'Internal Control: Guidance for Directors on the Combined Code'.

Risk management and internal control is a continuous process and has been considered by the Board on a regular basis during the year. The Board promotes the development of a strong control culture within the business. During the year the Board addressed the business risks which had been identified as key, taking into account any changes in circumstances over the period. The Audit Committee has reviewed the level of internal audit resource available within the Group and believes that it is appropriate to the size and business risks of the Group.

The Board considers that the Group's management structure and timely and continuous monitoring of key performance indicators provide the ability to identify promptly any material areas of concern. Business continuity plans, procedures manuals and codes of conduct are maintained in respect of specific major risk areas and business processes. Through these measures the management of business risk is an integral part of Group policy and the Board will continue to enhance risk management and internal control wherever practical.

External auditors

Ernst & Young LLP have reported to the Audit Committee that, in their professional judgement, they are independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired. The Audit Committee has reviewed this statement and concurs with its conclusion.

In order to ensure the continued independence and objectivity of the Group's external auditors, the Board has established policies regarding the provision of non-audit services by the auditors. As a result of either regulatory requirements or their existing knowledge of the Group, the Group's auditors are in some cases able to provide certain services more effectively than other parties. In other circumstances, assignments are subject to independent tender, and decisions on the allocation of work are made on the basis of competence and cost-effectiveness.

The Audit Committee reviews details of audit and non-audit fees at least annually in conjunction with the above policies and approves in advance any significant non-audit services to be provided.

Personal use of company assets

The Board carried out a review during the year and confirmed that there has been no improper personal use of company assets by directors or other employees. Policies are in place to ensure proper approval procedures are applied to expense claims and that these are in accordance with service agreements. The Remuneration Committee has reviewed the level of benefits in kind provided to executive directors.

Relations with shareholders

The Board acknowledges that its primary role is to represent and promote the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group.

The Board communicates with its shareholders in respect of the Group's business activities through its Annual Report and Accounts, yearly and half yearly announcements and regular trading updates to the Stock Exchange. Full year, interim and other public statement announcements are presented in a consistent format with a particular focus on making the presentations as meaningful, understandable and comparable as possible. This information is also made publicly available via the Company's website.

All shareholders have an opportunity to ask questions or represent their views to the Board at the Annual General Meeting. The Company's largest shareholders are invited to the annual and interim results presentations, at which executive and non-executive directors are present. In addition, non-executive directors may attend other meetings with shareholders on request. Shareholder views are also communicated to the Board through the inclusion in Board reports of shareholder feedback and statements made by representative associations.

The Board takes care not to disseminate information of a share price sensitive nature which is not available to the market as a whole.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- make judgements and estimates that are reasonable and prudent;

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The directors report that having reviewed current performance and forecasts they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the accounts.

Corporate Responsibility Statement

Since publishing its 2004 Corporate Responsibility (CR) report NEXT has been consolidating and integrating CR commitments throughout the Group. A third party has been commissioned to provide independent assurance on the content of the 2005 CR report, which will be published on the Company's website later this year. The Group's commitment to CR matters has also been recognised externally by its continuing membership of the FTSE4Good Index Series.

A CR Manager has been appointed and a CR forum has been created to develop and implement the Group's strategy. The CR forum is made up of 15 senior managers and directors representing key areas of the business. The objective of the forum is to review key business drivers and associated risks in order to embed CR considerations within the Group's business operations. The CR Manager holds regular updates with the executive director responsible for CR matters.

The Group has identified its supply chain as a key area of consideration and its supplier Code of Practice remains at the heart of the Group's operations. The code specifies compliance standards for environmental protection, labour, wages and other issues relating to working conditions. During the year the Global Code of Practice team has been increased in number and has revised areas of responsibility to strengthen the monitoring of supplier compliance.

Last year's report commented on the Group's plans to concentrate efforts on improving waste stream management. As a result, its stores and warehouses recycled over 11,000 tonnes of cardboard and over 700 tonnes of polythene. This area is capable of further improvement and it will remain an area of focus during 2005.

The introduction of the Waste of Electrical and Electronic Equipment Directive is anticipated in 2005. Throughout 2004 the Group has worked with the government and other retailers represented on the British Retail Consortium to ensure that the Directive offers a workable solution for all parties involved.

During 2005, the Group will take steps to further analyse the environmental impact from the manufacture and transport of Group products, and the use of energy in stores, warehouses and office buildings.

People are a key asset to the business. NEXT is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination. The Group has established policies for recruitment, training and development of personnel and is committed to achieving excellence in the areas of health, safety, welfare and protection of the working environment. It has adopted policies aimed at minimising risk in the Group's activities to ensure that they do not harm employees, customers or the general public, all of whose interests are regarded as critical to business success.

The Group directly employs over 2,000 people in Sri Lanka and, as a large purchaser of goods, is indirectly involved with the livelihood of thousands of others. Following the horrifying devastation caused by the Indian Ocean tsunami, the Group has to date raised a total of £797,000, comprising £306,000 of Group funds plus donations from directors, employees, associated companies and suppliers of the Group. Some of the total amount raised was used to provide immediate medical assistance, however the majority will finance the building of 200 homes in Sri Lanka and social facilities for dispossessed people.

All monies contributed in respect of the tsunami disaster are in addition to existing commitments and will not reduce the Group's established corporate charity and sponsorship programme.

Remuneration Report

This report contains the information required by the Companies Act 1985 and the relevant parts of the Listing Rules of the UK Listing Authority and the Combined Code on Corporate Governance. The Board of Directors reports that the Company has complied with these regulations throughout the year under review, other than certain aspects of directors' notice periods which were brought into compliance with the Combined Code during the year.

Information not subject to audit

The Remuneration Committee

The Remuneration Committee determines the remuneration of the Group's Chairman and executive directors, and reviews that of senior executives. The members of the Committee who served during the year are listed in this Annual Report. They are independent non-executive directors of the Company and have no personal financial interest (other than as shareholders) in the matters addressed by the Committee and have no conflicts of interest arising from cross-directorships.

Remuneration policy

The remuneration packages of directors are reviewed by the Committee at least annually on the same basis as any other employee of the Group. The review takes into account market practice and performance of the individual and of the business. Other factors taken into account include the experience and responsibility of the individuals concerned. The Committee receives information from various independent sources on directors' remuneration. The components of the Group's remuneration packages are detailed below.

Policy is structured to provide a mix of remuneration to ensure that no one component or measure dominates and that interests are aligned over different time periods with other employees and shareholders. Packages include basic salary, annual bonus based on earnings per share and a long term incentive plan based on total shareholder return. No changes to policy have been made as a consequence of impending changes to pensions taxation.

Salary

Salaries of directors are set by reference to those prevailing in the market, particularly within other major retail companies, and according to individual performance, experience and responsibility.

Annual performance related bonus

The executive directors participate in an annual performance related bonus scheme which is based on a formula determined by the Committee measuring the performance of the business. The performance measure is earnings per share before tax, which must increase by 5% prior to any bonus becoming payable. The formula includes an upper limit of 75% of salary and other constraints which may reduce the bonus percentage below that determined by the formula. Earnings per share growth must reach a demanding level of at least 25% for the maximum bonus to be earned.

Long term incentive plan

The long term incentive plan was approved by shareholders in 1997 and is due for renewal in 2007. Invitations to participate are generally issued annually to executive directors and senior executives.

Performance is measured over periods of three years, which commence annually, by comparing Total Shareholder Return against approximately 20 other UK listed retail companies. The comparator group of companies for the three year performance period to January 2005 was as follows:

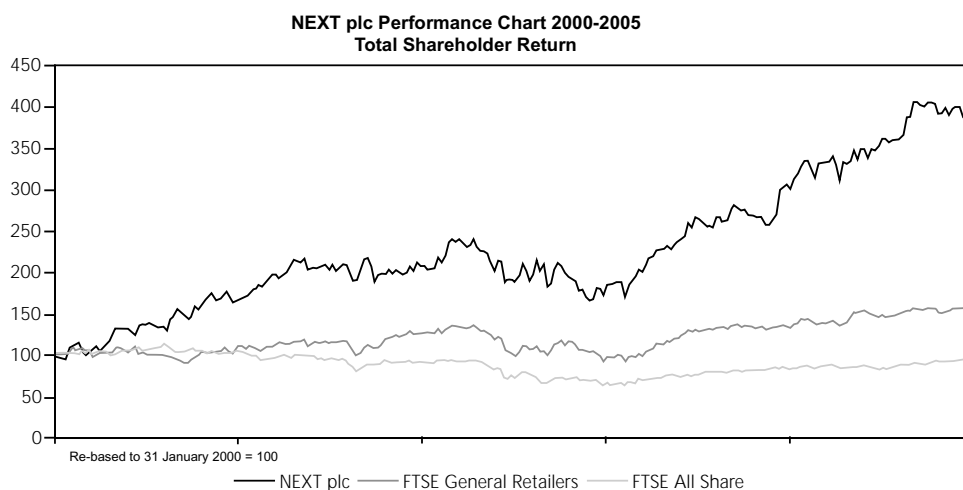
Arcadia	Findel	Laura Ashley	N. Brown
Body Shop	G.U.S.	Marks & Spencer	New Look
Boots	JJB Sports	Matalan	Selfridges
Debenhams	J Sainsbury	MFI Furniture	Tesco
DFS Furniture	Kingfisher	Mothercare	W H Smith
Dixons			

The Committee determines which companies are included, added or removed from the comparator group. Arcadia, Debenhams and Selfridges have been removed for periods ending January 2006 onwards following their delisting and have been replaced with Burberry, Signet and Woolworths. Laura Ashley, DFS and New Look have been removed for periods ending January 2007 onwards and have been replaced with Carpetright, Kesa and Morrisons.

Remuneration Report

The Committee considers that the comparator group consists of companies which are most comparable to NEXT in size or nature of their business. The Committee believes that comparison against a group of retail companies is more likely to reflect the Company's relative performance against its peers, thereby resulting in appropriate awards being made.

The graph below shows relative Total Shareholder Return of the Company over five years when compared to the FTSE All Share index and FTSE General Retailers index. This illustrates the Company's performance against a wide all-share UK index and against other companies in the same sector.



Under the rules of the plan the maximum share award possible for each performance period is the equivalent of 100% of basic salary at the start of the performance period. However, the Committee has generally restricted the maximum share award possible to the equivalent of 70% of basic salary. An incremental award has been made to Mr Angelides and three senior executives, bringing their maximum share award to an equivalent of 100% of salary for the performance period commencing January 2004. This additional 30% award is contingent on their remaining with the Group for a five year period to January 2009.

If Total Shareholder Return is below the median ranking company there will be no entitlement to any of the award. For median performance the entitlement will be 30% of the maximum award. For performance above the median the entitlement will rise, with the maximum award being earned for performance which places the Company in the upper quartile of the comparator group. Irrespective of where Company performance ranks, no award will be made unless the earnings per share of the Company has increased by at least the increase in the Retail Price Index over the period.

Awards are granted provisionally at the start of a performance period and remain subject to performance conditions over the life of the plan before any entitlement is earned. If no entitlement has been earned at the end of a three year performance period then the award for that period will lapse.

The Company has discretion as to whether entitlements earned are payable in NEXT shares or cash and to date it has allowed participants the choice. Entitlements earned are not pensionable and are based on salary and share price at the start of the performance period. Individuals included in the plan have not received grants under the management share option scheme in the same year.

Special bonuses

In July 2004, a special bonus was paid to certain directors and senior executives in recognition of their importance to the Group's continuing success. The bonus was paid on the understanding that the recipient would invest the net amount along with a sum of their own money in a financial contract, the success of which is based on the market price of NEXT shares in four years' time.

The payments were made with the approval of the Remuneration Committee and all the recipients invested the amount received in the contract. Mr Wolfson (Chief Executive) elected not to receive any special bonus as he was consulted by the Remuneration Committee about these bonuses and therefore considered it inappropriate to benefit from them. Details of the amounts invested in the financial contracts by the executive directors and of the special bonuses paid are given below.

Remuneration Report

£000	Investment from own resources	Special bonus	Tax and NI on special bonus	Net special bonus invested	Total investment
S A Wolfson	500	–	–	–	500
C E Angelides	200	400	164	236	436
D W Keens	200	400	164	236	436
A J Varley	100	200	82	118	218
	<u>1,000</u>	<u>1,000</u>	<u>410</u>	<u>590</u>	<u>1,590</u>

The total gross amount payable in aggregate to executive directors and senior employees in respect of special bonuses amounted to £1,960,000.

The return on the financial contracts will vary between a minimum of zero (if the final share price is then £20 or less) and a maximum of approximately five times the initial investment. The maximum value will only be achieved if the final share price is at or above £24.50. The final price will be determined by an averaging mechanism over the final three months to July 2008.

Based on an average share price of £14.26 over the three months to July 2004, the Company's share price must increase at the equivalent of an annual compound growth rate of 8.8% prior to dividends payable in order for there to be any return on the initial investment. In order to achieve maximum value, the annual compound growth rate would be 14.5%.

The financial contracts were entered into with an independent third party regulated by the Financial Services Authority and are not subsidised, supported or underwritten by NEXT. There is no present or future liability for NEXT in respect of these contracts and no interest in the Company's securities is being acquired by the directors.

Certain major shareholders were consulted in respect of both the investments being made in the financial contracts and the special bonuses paid. The Chairman and non-executive directors of the Company did not receive any special bonuses nor have they invested in the financial contracts.

Management share options

The management share option scheme was approved by shareholders in 1995. A new ten year plan will be put to shareholders at the 2005 AGM. The current scheme provides for options over shares, exercisable between three and ten years following their grant, to be allocated to Group employees at the discretion of the Board. The total number of options which can be granted is subject to shareholder approved limits.

Options are set at the prevailing market price at the time of grant. The maximum value of Inland Revenue approved share options which may be granted to any employee is restricted to £30,000. Unapproved options can also be granted under the scheme, the maximum number being determined by a formula which restricts the aggregate option exercise price to four times total remuneration of the employee less the value of any outstanding approved share options. It is not the practice to grant the maximum number of options allowable to any employee in one year. Grants are generally made annually. The exercise of options is subject to a performance condition where the percentage growth in earnings per share of the Group over a three year period must exceed RPI and a further 3% per annum.

No options were granted to directors or changes made to existing entitlements in the year under review. No employee has received option grants under the scheme and been included in the long term incentive plan in the same year.

Sharesave options

The sharesave option scheme was approved by shareholders in 2000 and is due for renewal in 2010. Invitations to participate are generally issued annually to all employees.

The scheme operates on a save-as-you-earn principle and is subject to a maximum contribution limit of £250 per month per employee. Options are exercisable three, five or seven years from the date of grant. Options are granted at the prevailing market rate less a discount of 20%. A similar scheme is operated by the Company for its employees in the Republic of Ireland.

No sharesave options were granted to directors in the year under review.

Remuneration Report

Group pension scheme

Executive directors are eligible for membership of the NEXT Group Pension Plan which has been approved by the Inland Revenue and consists of defined benefit and defined contribution sections.

The trustee of the scheme is a limited company, NEXT Pension Trustees Limited (the "Trustee"). All the directors of the Trustee are appointed and can be removed by NEXT. The Board of the Trustee includes members of the scheme, a pensioner member, a former non-executive director of NEXT and an independent director who is also the current Chairman of the Trustee. All directors of the Trustee receive a fee for their services, including those directors who are also employees of NEXT.

The scheme's investments are kept entirely separate from the business affairs of the NEXT Group and the Trustee holds them in trust. Responsibility for investment of the scheme's funds has been delegated by the Trustee to professional investment managers.

Defined contribution section

Employees of the Group can join the defined contribution section of the scheme. Members elect to pay either 3% or 5% of their pensionable earnings which is matched by the Company. For death prior to retirement, a lump sum of three times the member's basic salary at the previous April is payable along with the current value of the member's fund, subject to Inland Revenue limits.

Defined benefit section

The defined benefit section of the scheme was closed to new members in 2000 but is being continued for the benefit of existing members. This section provides members with a retirement benefit of one sixtieth or one eightieth (depending on chosen member contribution rate) of final pensionable earnings for each year of pensionable service, payable from a normal retirement age of 60.

This section also provides a lump sum death in service benefit and dependents' pensions on death in service or following retirement. For death prior to retirement a spouse's pension of 60% of the member's prospective pension is payable. A lump sum of up to three times the member's final pensionable earnings plus a return of the member's contributions with interest is also payable. For death after retirement a spouse's pension of 60% of the member's pre-commutation pension is payable. A lump sum equivalent to the balance of five years' pension is payable if death occurs within five years of retirement. If death occurs after leaving service but before the pension becomes payable (i.e. as a deferred pensioner), a spouse's pension of 60% of the accrued deferred pension is payable along with a lump sum equal to the member's own contributions with interest. Children's pensions are only payable on death in service. In the case of ill-health retirement only the accrued pension is payable. All benefits are subject to Inland Revenue limits. Increases to pensions in payment are at the discretion of the Trustee although pensionable service post 1997 is subject to limited price indexation.

For all current scheme members basic pay, overtime and annual performance bonus are included in calculating pensionable earnings but no other items of remuneration are taken into account. The inclusion of annual performance bonus in pensionable earnings is limited to a maximum of 35% of an employee's annual salary in any year. The inclusion of bonus in pensionable earnings has been the practice for many years and is appropriate for NEXT where a significant element of employee earnings is dependent on productivity or profit performance. The Trustee has considered a request from the Company that bonus is excluded from future defined benefit pensionable earnings and is replaced with an optional AVC alternative, however it has not yet been possible to introduce such a change.

Members contribute 3% or 5% of pensionable earnings, whilst the Company made contributions at the rate of 13.4% up to April 2004 and 15.5% thereafter. The most recent full actuarial valuation of the defined benefit section's financial position was undertaken as at 31 March 2004 and concluded that the scheme had a 20% deficit of assets compared to actuarial liabilities.

Members who joined the scheme after May 1989 and before October 2000 are subject to the Inland Revenue salary cap for approved pension schemes which is set at £102,000 per annum for 2004/2005. Members subject to the cap may be provided with appropriate benefits through an unfunded, unapproved arrangement in relation to that part of their earnings which exceeds the cap, where they so elect. The relevant members contribute towards the additional cost of providing these benefits by paying 5% of pensionable earnings in excess of the cap.

Specific information in respect of executive directors' pension entitlements is detailed below.

Remuneration Report

Notice periods

Each of the executive directors has a rolling service contract which is terminable by the Company on giving one year's notice. The executive directors' service contracts were renewed on 8 October 2004. The only significant change was the reduction in notice period from two years to one year in the event of termination by the Company following a takeover of the Group. No compensation was paid to any director in respect of this reduction. The Committee will ensure that in the event of any termination payment being made to a director full account will be taken of that director's duty to mitigate any loss and where appropriate the Committee may seek independent professional advice prior to authorising such payment.

Apart from service contracts no director has had any material interest in any contract with the Company or its subsidiaries.

Other benefits

Executive directors receive benefits which may include the provision of a fully expensed company car or cash alternative, private medical insurance, annual subscriptions to appropriate professional bodies and staff discount when purchasing the Group's merchandise. Other employees are also eligible for certain of these benefits.

Non-executive directors

Remuneration of the non-executive directors of the Company is determined by the Chairman and the executive directors. Remuneration consists of fees for their services in connection with Board and Board Committee meetings. Letters of appointment do not contain notice periods. Non-executive directors do not participate in any of the Group's pension, bonus, share option or other incentive schemes.

Information subject to audit

Directors' remuneration £'000 2005	Salary/fee	Performance related bonus	Special bonus	Benefits	Total
Chairman					
D C Jones	250	-	-	28	278
Executive directors					
S A Wolfson	550	380	-	29	959
C E Angelides	411	276	400	9	1,096
D W Keens	375	258	400	26	1,059
A J Varley	280	193	200	27	700
Non-executive directors					
R J O Barton	54	-	-	-	54
N G Brookes	31	-	-	-	31
J A Burdus	9	-	-	-	9
C Cross	1	-	-	-	1
J D S Dawson	23	-	-	-	23
A C Mitchell-Innes	20	-	-	-	20
D N D Netherton	38	-	-	-	38
Total	2,042	1,107	1,000	119	4,268

Remuneration Report

Directors' remuneration £'000 2004	Salary/fee	Performance related bonus	Special bonus	Benefits	Total
<i>Chairman</i>					
D C Jones	250	-	-	33	283
<i>Executive directors</i>					
S A Wolfson	506	345	-	29	880
C E Angelides	329	224	-	22	575
D W Keens	340	231	-	28	599
A J Varley	258	205	-	25	488
<i>Non-executive directors</i>					
R J O Barton	35	-	-	-	35
N G Brookes	16	-	-	-	16
J A Burdus	28	-	-	-	28
A C Mitchell-Innes	60	-	-	-	60
D N D Netherton	35	-	-	-	35
<i>Total</i>	<u>1,857</u>	<u>1,005</u>	<u>-</u>	<u>137</u>	<u>2,999</u>

All directors were members of the Board throughout the two year period covered by the table above with the exception of Mr Brookes who was appointed on 25 June 2003, Mr Dawson who was appointed on 13 May 2004 and Mrs Cross who was appointed on 19 January 2005. Mr Mitchell-Innes and Ms Burdus both retired on 13 May 2004.

Mr Angelides was the highest paid director in the current year (2004: Mr Wolfson) after taking account of the special bonus, gains on exercise of share options of £286,250 and the long term incentive plan. Mr Keens' benefits include an allowance chargeable to UK tax of £nil (2004: £3,892). Mr Varley's 2004 bonus included £30,000 in respect of property transactions. Details of the special bonuses are as noted previously.

In addition to the above, Mr Mitchell-Innes received advisory fees of £13,125 subsequent to his resignation as a director of the Company, and remains a director of NEXT Pension Trustees Limited for which he received a fee of £26,041 (2004: £17,500). The Company paid a pension under the unfunded, unapproved arrangement to a former director of the Company of £31,155 (2004: £30,015).

Long term incentive plan

Estimated monetary values were included in the January 2004 Remuneration Report for the three year performance plan which matured at that date based on a share price of 1362p on 22 March 2004. Performance conditions of the plan are detailed above. Awards were made subsequent to the Report on 31 March 2004 when the share price was 1403p. Adjustments to the estimated monetary value together with the final award have therefore been included in the table below.

A further three year performance period of the plan matured in January 2005. The Total Shareholder Return of the Company over this period ranked between second and third when compared to the group of 21 other listed retail companies. Accordingly an award of 100% of the maximum (equivalent to 70% of basic salary) is expected to be made to the participants in the plan, which is payable in NEXT shares or cash at the Company's discretion. The awards will be made during 2005 and, based on the share price of 1563p on 21 March 2005, awards to directors would be as follows:

	January 2005		January 2004	
	Actual no. of shares	Estimated value £000	Adjustment to estimate £000	Final value £000
S A Wolfson	34,370	537	12	411
C E Angelides	22,913	358	8	273
D W Keens	22,913	358	10	333
A J Varley	19,094	299	8	273
	<u>99,290</u>	<u>1,552</u>	<u>38</u>	<u>1,290</u>

Remuneration Report

The performance periods of the annual long term incentive plans which mature in January 2006 and 2007 respectively are not yet complete and no entitlement has yet been earned. A charge of £4,803,000 (2004: £3,146,000) has been made in the accounts in respect of the estimate of the amount for awards relating to the year, of which approximately £2,193,000 (2004: £1,306,000) related to the executive directors.

The directors held the following provisional maximum awards over shares under the long term incentive plan for which the performance period was not completed as at 31 January 2005.

	No. of shares to January 2006	No. of shares to January 2007
S A Wolfson	40,732	32,906
C E Angelides	27,158	34,188
D W Keens	29,032	22,436
A J Varley	22,654	16,752
	<u>119,576</u>	<u>106,282</u>

The provisional maximum awards for the performance period to January 2007 were allocated during the year. There have been no other changes to awards under the long term incentive plan during the year.

Directors' pension entitlements

All executive directors are members of the defined benefit section of the NEXT Group Pension Plan. Directors and some senior managers receive an enhancement from the Plan, increasing the accrual of their retirement benefit up to two thirds of their final pensionable earnings on completion of 20 years pensionable service at age 60 for members who joined before October 2000. The lump sum payable on death in service for directors and some senior managers is enhanced to four times pensionable salary. In the case of earnings over £100,000 per annum, final pensionable earnings are based on an average of the best consecutive 36 or more months earnings in the ten years prior to retirement.

Pension entitlements of the executive directors who held office during the year are as follows:

	Age at January 2005	Years of pensionable service	Accrued annual pension £000	Increase in accrued annual pension £000	Transfer value of accrued annual pension		Increase in transfer value less director's contributions £000
					2005 £000	2004 £000	
S A Wolfson	37	10	135	30	851	546	290
C E Angelides	41	12	124	27	889	615	259
D W Keens	51	18	210	30	2,119	1,666	428
A J Varley	54	21	185	20	2,138	1,841	278

Years of pensionable service shown above may include bought in service from the transfer of other pension entitlements into the Plan. Due to movements in bond yields, which underly the basis of calculation of transfer values, the increase in transfer values over the year can be significantly higher for members nearer to retirement than for younger members.

Mr Wolfson and Mr Angelides are both subject to the Inland Revenue salary cap and have elected to join the unfunded, unapproved pension arrangement. The accrued annual pension set out above includes their membership of that arrangement.

Remuneration Report

Directors' interests

Directors' beneficial interests in shares and share options at the beginning of the financial year, or date of appointment if later, and at the end of the year, were as follows:

	Ordinary shares of 10p each		Options over ordinary shares of 10p each			
	2005 No. of shares	2004 No. of shares	2005 No. of shares	2005 Average exercise price (p)	2004 No. of shares	2004 Average exercise price (p)
D C Jones	220,000	356,000	-	-	-	-
S A Wolfson	1,760,000	1,773,384	2,340	707	2,340	707
C E Angelides	77,001	77,001	3,107	543	28,107	531
R J O Barton	4,000	2,000	-	-	-	-
N G Brookes	2,500	2,500	-	-	-	-
C Cross	-	-	-	-	-	-
J D S Dawson	-	-	-	-	-	-
D W Keens	219,000	239,000	2,664	571	2,664	571
D N D Netherton	-	5,000	-	-	-	-
A J Varley	89,739	100,739	2,148	630	2,148	630

Share options expire at various dates up to September 2008. No director held any option with an exercise price above the market price of NEXT shares on 29 January 2005. No share options were granted to any directors during the year. Share options exercised by directors during the year were as follows:

	No. of shares	Exercise price (p)	Market price (p)	Date of exercise
Management options				
C E Angelides	25,000	530	1675	1 November 2004

The total value of options exercised, being the excess of market price over the exercise price on the dates of exercise, was £286,250 (2004: £521,683). Performance conditions for the exercise of options are detailed above. The market price of shares at 29 January 2005 was 1592p and the range during the year then ended was 1260p to 1718p.

The executive directors are also (together with other employees) discretionary beneficiaries under the Group's ESOP Trust and, as such, were each considered to be interested in the 8,954,863 shares owned by the Trust at 29 January 2005. Mr Keens has a beneficial holding of £41,000 nominal value of the Company's 10 year 5.25% corporate bonds.

There have been no changes to directors' interests in the shares of the Company from the end of the year to 21 March 2005. Full details of directors' interests in the shares and share options of the Company are contained in the Register of Directors' Interests which is open to inspection.

On behalf of the Board

John Barton
Chairman of the Remuneration Committee

23 March 2005

Consolidated Profit and Loss Account

For the financial year ended 29 January	Notes	2005 £m	2004 £m Restated
Turnover	1	2,858.5	2,516.0
Profit before interest	2	441.1	375.5
Net interest payable	4	(18.2)	(17.3)
Profit on ordinary activities before taxation		422.9	358.2
Taxation on profit on ordinary activities	5	(121.9)	(108.1)
Profit on ordinary activities after taxation		301.0	250.1
Dividends	7	(103.0)	(89.3)
Profit for the year transferred to reserves	22	198.0	160.8
Earnings per share	8	118.5p	93.9p
Diluted earnings per share	8	116.7p	93.0p

Consolidated Statement of Total Recognised Gains and Losses

For the financial year ended 29 January		2005 £m	2004 £m Restated
Profit attributable to members of the parent company		301.0	250.1
Exchange difference on translation of net assets of subsidiary undertakings		0.6	(1.6)
Total recognised gains and losses relating to the year	23	301.6	248.5
Prior period adjustment	9	6.9	–
Total gains and losses recognised since last annual report		308.5	248.5

Group Balance Sheet

As at 29 January

	Notes	2005 £m	2004 £m Restated
Fixed assets			
Goodwill	10	31.9	36.2
Tangible assets	11	422.1	355.7
Investments	12	1.5	1.0
		<u>455.5</u>	<u>392.9</u>
Current assets			
Property development stock	13	5.9	5.9
Stock	14	295.7	263.5
Debtors	15	436.0	378.5
Cash at bank and in hand		72.3	62.3
		<u>809.9</u>	<u>710.2</u>
Current liabilities			
Creditors: amounts falling due within one year	16	620.1	576.6
		<u>189.8</u>	<u>133.6</u>
Net current assets			
		<u>645.3</u>	<u>526.5</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	17	349.3	352.7
Provision for liabilities and charges	19	23.3	18.7
		<u>272.7</u>	<u>155.1</u>
Net assets			
		<u>272.7</u>	<u>155.1</u>
Capital and reserves			
Called up share capital	21	26.1	26.5
Share premium account	22	0.6	0.6
Revaluation reserve	22	9.4	14.0
Capital redemption reserve	22	3.8	3.4
ESOP reserve	22	(93.3)	(72.8)
Other reserves	22	(1,448.9)	(1,448.9)
Profit and loss account	22	1,775.0	1,632.3
		<u>272.7</u>	<u>155.1</u>
Shareholders' funds	23	<u>272.7</u>	<u>155.1</u>

Approved by the Board on 23 March 2005

S A Wolfson Director
D W Keens Director

Consolidated Cash Flow Statement

For the financial year ended 29 January	Notes	2005 £m	2004 £m
Net cash inflow from operating activities	26	506.5	402.2
Returns on investments and servicing of finance			
Interest paid		(19.0)	(9.7)
Taxation			
UK corporation tax paid		(113.6)	(91.8)
Overseas tax paid		(3.5)	(4.5)
		(117.1)	(96.3)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(144.0)	(99.8)
Proceeds from disposal of fixed assets		7.7	4.2
		(136.3)	(95.6)
Acquisitions and disposals			
Purchase of investment in associated company		(1.2)	–
		(1.2)	–
Equity dividends paid		(94.2)	(85.4)
Cash inflow before management of liquid resources and financing		138.7	115.2
Management of liquid resources	27	(2.0)	4.3
Financing			
Issue of equity shares		–	0.6
Company shares purchased for cancellation		(57.3)	(209.0)
Capital element of finance lease repayments		(0.2)	(0.1)
Unsecured bank loans		(60.0)	(150.0)
Issue of corporate bond		–	300.00
Purchase of own shares by ESOP		(41.1)	(40.2)
Proceeds from disposal of shares by ESOP		16.0	16.2
		(142.6)	(82.5)
(Decrease)/increase in cash in the year		(5.9)	37.0
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year		(5.9)	37.0
Cash outflow/(inflow) from management of liquid resources		2.0	(4.3)
Decrease in cash from unsecured bank loan		60.0	150.0
Cash inflow from corporate bond issue		–	(300.0)
Capital element of finance lease repayments		0.2	0.1
Changes in net debt resulting from cash flows	28	56.3	(117.2)
New finance leases	28	(0.2)	(0.9)
Movement in net debt in the period		56.1	(118.1)
Net debt at January 2004	28	(306.9)	(188.8)
Net debt at January 2005	28	(250.8)	(306.9)

Company Balance Sheet

As at 29 January	Notes	2005 £m	2004 £m Restated
Fixed assets			
Investments	12	2,477.7	2,477.7
Current assets			
Debtors	15	6.5	203.7
Cash at bank and in hand		0.7	0.2
		<u>7.2</u>	<u>203.9</u>
Current liabilities			
Creditors: amounts falling due within one year	16	137.9	138.1
Net current (liabilities)/assets		<u>(130.7)</u>	<u>65.8</u>
Total assets less current liabilities		2,347.0	2,543.5
Creditors: amounts falling due after more than one year	17	300.0	300.0
Net assets		<u>2,047.0</u>	<u>2,243.5</u>
Capital and reserves			
Called up share capital	21	26.1	26.5
Share premium account	22	0.6	0.6
Capital redemption reserve	22	3.8	3.4
ESOP reserve	22	(93.3)	(72.8)
Other reserves	22	985.2	985.2
Profit and loss account	22	1,124.6	1,300.6
Shareholders' funds		<u>2,047.0</u>	<u>2,243.5</u>

Approved by the Board on 23 March 2005

S A Wolfson Director
D W Keens Director

Accounting Policies

Accounting convention

The accounts are prepared under the historical cost convention modified to include the revaluation of certain land and buildings.

The accounts are prepared in accordance with applicable accounting standards. Where it is necessary to choose between accounting policies, those selected are judged by the directors to be the most appropriate to the Group's particular circumstances for the purpose of giving a true and fair view.

Basis of consolidation

The Group consolidates the accounts of the Company and its subsidiary undertakings.

The results of companies acquired during the year are dealt with from the effective date of acquisition. The results of companies disposed of during the year are dealt with to the effective date of disposal.

The Group accounts include the appropriate share of the results and net assets of all associated undertakings using the equity method and based upon either audited accounts or management accounts to January 2005.

Goodwill

The amount by which the fair value of the consideration paid prior to January 1998 for acquisitions exceeded that of the separable net assets has been eliminated against reserves. Goodwill arising on subsequent acquisitions has been capitalised and amortised over its useful economic life. The amortisation rate applicable is 10% per annum. On disposal goodwill realised is accounted for through the profit and loss account.

The carrying value of goodwill is reviewed annually for impairment. The useful economic life represents the finite period over which benefits are expected to arise, having regard to the nature of the business purchased and the industry in which it operates.

Tangible fixed assets

Land and buildings are shown at original cost or subsequent valuation. Other fixed assets are shown at cost.

Depreciation is provided to write down the cost or valuation less residual value of fixed assets over their remaining useful lives by equal annual instalments.

The depreciation rates generally applicable are summarised as follows:

Freehold and long leasehold buildings	2.0%
Plant, shop fronts and retail fittings in the high street retailing business	16.7%-50.0%
All other plant, fixtures, fittings, IT assets and vehicles	6.67%-50.0%
Leasehold improvements	over the period of the lease

Investments

Investments are included at cost less amounts written off where applicable.

Property development stock

Properties held for redevelopment are stated at cost including interest capitalised during the period of development (gross of corporation tax) less provision for any known or anticipated future losses.

Stock

Stock is valued at the lower of cost or net realisable value. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal.

Debtors

Provision is made for doubtful debts using an arrears based method, which is designed to provide fully for those debts which will be irrecoverable.

Accounting Policies

Deferred tax

Full provision is generally made for deferred tax arising from timing differences between the differing treatment of certain items for taxation and accounting purposes. The provision is calculated at the rates of taxation at which it is estimated the liability will arise and is not discounted. No provision is made in respect of timing differences arising from the sale or revaluation of fixed assets unless there is a commitment to the disposal of the assets at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider there to be suitable taxable profits from which the underlying timing differences can be deducted.

Share options

The charge recognised in the profit and loss account in respect of share options is based on the intrinsic value of the award, being the difference between the market value of the shares at the date of the award and the option exercise price. The charge is recognised on a straight line basis over the vesting period of the option.

Shares held by ESOP

Shares in the Company held by the NEXT 2003 Employee Share Ownership Plan Trust (the "ESOP") are shown as a deduction from shareholders' funds (ESOP reserve) at the net consideration paid for the shares.

Foreign currencies

Upon consolidation assets and liabilities denominated in foreign currencies, including overseas subsidiary undertakings, are translated at the rate of exchange ruling at the balance sheet date. Overseas subsidiary undertakings' revenue items are translated at the weighted average rate during the period, and differences on translation of assets and liabilities are taken directly to reserves.

In the accounts of the Company, transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at hedged rates. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date. Resulting exchange gains or losses are taken to the profit and loss account.

Financial instruments

Foreign currency financial instruments are used to hedge the cost in sterling of the Group's future overseas product purchases. No recognition is made of accrued but unrealised gains or losses on currency instruments until the relevant contract is concluded. All premiums or costs paid in respect of currency instruments are charged to profit and loss account when incurred. Short term debtors and creditors are not considered to be financial instruments for the purpose of disclosure under FRS13 Derivatives and Other Financial Instruments.

Pension cost

The pension cost of the defined benefit section of the Group pension scheme is charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Group. The pension cost of the defined contribution section is charged as incurred.

Operating leases

The Group's principal leased assets are properties acquired under operating leases which are generally subject to periodic rent reviews. The cost of property leases is charged to operating profit in the period to which it relates.

On acquiring short leasehold properties any premiums payable are charged to the profit and loss account over the period to the first rent review. Rent free periods are released to profit over the period from the date of commencement of the lease up to the first rent review. Capital contributions receivable are credited to the balance sheet and released to profit and loss account over the period to the first rent review.

The cost of all other operating leases is charged to operating profit on a straight line basis over the period of the lease.

Finance leases

Assets used by the Group which have been funded through finance leases are capitalised in fixed assets and the resulting lease obligations are included in creditors. The assets are depreciated over their useful lives and the interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Notes to the Accounts

1 Segmental information

The results for the year are for the 52 weeks to 29 January 2005 (last year 52 weeks to 31 January 2004) with the exception of Ventura, NEXT Sourcing and certain other activities which relate to the year to 31 January.

Turnover represents goods sold and services provided to customers outside of the Group, stated net of value added tax and returns.

By business sector:	Turnover		Operating profit		Net assets	
	2005 £m	2004 £m	2005 £m	2004 £m Restated	2005 £m	2004 £m Restated
NEXT Retail	2,057.6	1,809.3	307.4	259.4		
NEXT Directory	602.6	533.7	89.5	77.0		
NEXT Brand	2,660.2	2,343.0	396.9	336.4	390.3	119.5
NEXT Sourcing	20.2	17.6	28.5	23.7	61.3	50.1
NEXT Franchise	33.5	28.8	6.0	5.3	10.0	5.7
Ventura	131.8	112.0	12.9	15.4	47.4	41.1
Other activities	12.8	14.6	(3.2)	(5.3)	(236.3)	(61.3)
	2,858.5	2,516.0	441.1	375.5	272.7	155.1

By geographical destination:

United Kingdom	2,761.2	2,438.3	410.1	348.8	172.0	75.5
Rest of Europe	68.6	53.2	1.6	1.4	6.1	5.2
North America	-	-	0.1	0.2	0.4	0.3
Middle East	19.7	16.8	4.4	3.0	2.0	0.3
Asia	9.0	7.7	24.9	22.1	92.2	73.8
	2,858.5	2,516.0	441.1	375.5	272.7	155.1

No allocation of net assets has been made between NEXT Retail and NEXT Directory as the common use of assets by the two business sectors means that this is not appropriate.

The analysis of turnover and operating profit by geographical origin is not significantly different from the analysis by destination disclosed above.

2 Profit before interest

	2005 £m	2004 £m Restated
Turnover	2,858.5	2,516.0
Cost of sales	(1,962.0)	(1,762.5)
Gross profit	896.5	753.5
Distribution costs	(195.9)	(158.9)
Administrative expenses	(261.7)	(221.1)
Group operating profit	438.9	373.5
Share of operating profit in associated undertakings	2.2	2.0
Profit before interest	441.1	375.5

Notes to the Accounts

2 Profit before interest (continued)

	2005 £m	2004 £m
Profit before interest is stated after charging/(crediting):		
Depreciation on assets		
Owned	70.6	62.2
Leased	0.3	0.1
Amortisation of goodwill	4.3	4.4
Operating lease rentals	131.8	117.8
Rent receivable	(8.0)	(8.0)
Auditors' remuneration	0.3	0.3

Non-audit services provided by Ernst & Young LLP with fees amounting to £40,000 (2004: £104,000) were wholly attributable to work that they were best placed to perform through their position as auditor.

3 Staff costs

	2005 £m	2004 £m
Wages and salaries	473.7	393.7
Social security costs	33.7	27.7
Other pension costs (Note 36)	18.6	17.6
	<u>526.0</u>	<u>439.0</u>

Total staff costs by business sector were made up as follows:

	2005 £m	2004 £m
NEXT Brand	406.4	345.5
Ventura	83.8	61.9
Other activities	35.8	31.6
	<u>526.0</u>	<u>439.0</u>

	Average employees		Full time equivalents	
	2005 Number	2004 Number	2005 Number	2004 Number
NEXT Brand	44,945	39,179	23,783	20,678
Ventura	6,567	4,366	5,728	3,836
Other activities	3,090	2,765	3,086	2,760
	<u>54,602</u>	<u>46,310</u>	<u>32,597</u>	<u>27,274</u>

The Remuneration Report on pages 18 to 25 contains full details of the directors' emoluments for the year.

Notes to the Accounts

4 Net interest payable

	2005 £m	2004 £m
Bank and financial instruments	0.9	0.1
Other interest	0.7	0.2
	<hr/>	<hr/>
Interest receivable	1.6	0.3
Interest payable	(19.8)	(17.6)
	<hr/>	<hr/>
Net interest payable	(18.2)	(17.3)

5 Taxation on profit on ordinary activities

	2005 £m	2004 £m
The taxation charge based on the results for the year is made up as follows:		
Current tax:		
UK corporation tax on profits of the year	118.1	108.0
Adjustments in respect of previous years	(4.4)	(2.1)
	<hr/>	<hr/>
	113.7	105.9
Overseas tax	3.4	2.6
Tax attributable to associated undertakings	0.2	0.2
	<hr/>	<hr/>
Total current tax	117.3	108.7
Deferred tax (Note 20):		
Origination and reversal of timing differences	4.6	(0.6)
	<hr/>	<hr/>
Taxation on profit on ordinary activities	121.9	108.1

The tax rate for the current year varied from the standard rate of corporation tax in the UK due to the following factors:

	2005 %	2004 % Restated
UK corporation tax rate	30.0	30.0
Expenses not deductible for tax purposes	0.2	2.4
Origination and reversal of timing differences	(0.4)	(0.2)
Overseas tax differentials	(1.1)	(1.2)
Prior year corporation tax	(1.0)	(0.6)
	<hr/>	<hr/>
Effective current tax rate on ordinary activities	27.7	30.4
Deferred tax	1.1	(0.2)
	<hr/>	<hr/>
Effective total tax rate on ordinary activities	28.8	30.2

Notes to the Accounts

6 Profit on ordinary activities after taxation

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of the accounts. The loss on ordinary activities after taxation and dividends dealt with in the accounts of the holding company was £115.5m (2004: profit of £189.0m).

7 Dividends

	2005 £m	2004 £m
Interim dividend 13p (2004: 11p)	33.1	29.1
Final dividend 28p (2004: 24p)	70.8	62.0
Total dividend 41p per share (2004: 35p)	<u>103.9</u>	<u>91.1</u>
Adjustment to prior year final dividend on shares repurchased	(0.9)	(1.8)
	<u>103.0</u>	<u>89.3</u>

8 Earnings per share

The calculation of earnings per share is based on £301.0m (2004 restated: £250.1m) being the profit for the year after taxation and 254.1m ordinary shares of 10p each (2004: 266.3m), being the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOP during the year.

The calculation of diluted earnings per share is based on £301.0m (2004 restated: £250.1m) being the profit for the year after taxation and 257.9m ordinary shares of 10p each (2004: 268.9m) being the weighted average number of shares used for the calculation of earnings per share above increased by the dilutive effect of potential ordinary shares from employee share option schemes of 3.8m shares (2004: 2.6m shares).

9 Prior period adjustment

The requirements of UITF 38 Accounting for ESOP Trusts and the revised UITF 17 Employee Share Schemes became mandatory for the Company for the year ending 29 January 2005.

The new standards change the presentation of the Company's own shares held by its ESOP trust from being recognised as an asset on the balance sheet to being deducted in arriving at shareholders' funds. In addition, the charge recognised in the profit and loss account is now based on the difference between the market value of the shares at the date of the award and the option exercise price, rather than the difference between the cost of the shares and their estimated realisable value.

The changes in accounting policy required to comply with these requirements have been accounted for as a prior period adjustment. This adjustment comprised the reclassification of the cost of the investment in own shares at 31 January 2004 of £72.8m to an ESOP reserve, and the reclassification of the related provision of £6.9m to the profit and loss account reserve. The overall impact of these changes has been to increase reported profit for the year ended January 2004 by £4.9m (with a similar impact on the current year) and reduce net assets at that date by £65.9m.

Notes to the Accounts

10 Goodwill

	Group £m
Cost	
At January 2004 and January 2005	42.2
Amortisation	
At January 2004	6.0
Provided during the year	4.3
At January 2005	10.3
Net book value	
At January 2005	31.9
At January 2004	36.2

11 Tangible assets

The Group Cost or valuation	Freehold property £m	Leasehold property Long £m	Short £m	Plant and fittings £m	Total £m
At January 2004					
At cost	67.9	8.0	7.3	521.9	605.1
At valuation	12.9	3.5	–	–	16.4
	80.8	11.5	7.3	521.9	621.5
Exchange movement	–	–	–	(0.2)	(0.2)
Additions	0.1	–	–	144.1	144.2
Disposals	(4.6)	(0.9)	–	(23.2)	(28.7)
At January 2005	76.3	10.6	7.3	642.6	736.8
At cost	66.0	7.9	7.3	642.6	723.8
At valuation	10.3	2.7	–	–	13.0
Depreciation					
At January 2004	9.1	1.6	7.3	247.8	265.8
Exchange movement	–	–	–	(0.1)	(0.1)
Provided during the year	1.7	0.2	–	69.0	70.9
Disposals	(0.3)	(0.1)	–	(21.5)	(21.9)
At January 2005	10.5	1.7	7.3	295.2	314.7
Net book value					
At January 2005	65.8	8.9	–	347.4	422.1
At January 2004	71.7	9.9	–	274.1	355.7

The net book value of plant and fittings above includes an amount of £0.8m (2004: £0.8m) in respect of assets held under finance lease contracts.

Notes to the Accounts

11 Tangible assets (continued)

Certain of the Group's freehold and long leasehold properties were revalued at 25 December 1990 and 31 August 1985 at £11.2m and £1.8m respectively. The Group has elected to follow the transitional arrangements of FRS15 Tangible Fixed Assets in respect to these assets which were revalued prior to implementation of the accounting standard. Accordingly the assets will be carried at valuations which have not been updated.

The historical cost and related accumulated depreciation of property included in the accounts as at January 2005 is as follows:

	Group	
	Freehold £m	Long leasehold £m
Historical cost	68.1	8.4
Historical accumulated depreciation	(9.7)	(1.5)
	<u>58.4</u>	<u>6.9</u>

12 Investments

	Subsidiary undertakings £m	Associated undertakings £m	Total £m
The Group			
Cost			
At January 2004	–	1.2	1.2
Additions	–	1.2	1.2
Retained profit	–	0.5	0.5
At January 2005	<u>–</u>	<u>2.9</u>	<u>2.9</u>
Provision			
At January 2004	–	0.2	0.2
Provided during the year	–	1.2	1.2
At January 2005	<u>–</u>	<u>1.4</u>	<u>1.4</u>
Net book value			
At January 2005	<u>–</u>	<u>1.5</u>	<u>1.5</u>
At January 2004	–	1.0	1.0
The Company			
Cost and net book value			
At January 2004 and 2005	<u>2,477.7</u>	<u>–</u>	<u>2,477.7</u>

During the year, the Group sold goods in the normal course of business to its associated undertakings as follows:

	Sales		Balance outstanding	
	2005 £m	2004 £m	2005 £m	2004 £m
Choice Discount Stores Limited	4.3	4.5	1.6	0.7
Cotton Traders Limited	18.0	16.5	2.5	2.0

Notes to the Accounts

13 Property development stock

	Group	
	2005	2004
	£m	£m
Cost	5.9	8.2
Less provision	-	(2.3)
Estimated net realisable value	<u>5.9</u>	<u>5.9</u>

The gross cost of property development stock at 29 January 2005 includes capitalised interest amounting to £nil (2004: £0.8m). No interest has been capitalised in the year or in the previous year.

14 Stock

	Group	
	2005	2004
	£m	£m
Raw materials and work in progress	6.9	8.2
Finished goods and goods for resale	288.8	255.3
	<u>295.7</u>	<u>263.5</u>

15 Debtors

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade and customer debtors	347.5	300.9	-	-
Amounts due from subsidiary undertakings	-	-	-	198.4
Amounts due from associated undertakings	4.1	2.7	-	-
Other debtors	8.7	12.8	1.8	2.0
Taxation	-	-	4.7	3.3
Prepayments and accrued income	74.2	60.0	-	-
	<u>434.5</u>	<u>376.4</u>	<u>6.5</u>	<u>203.7</u>
Amounts falling due after more than one year:				
Trade and customer debtors	1.5	2.1	-	-
Total debtors	<u>436.0</u>	<u>378.5</u>	<u>6.5</u>	<u>203.7</u>

Notes to the Accounts

16 Creditors: amounts falling due within one year

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Bank overdrafts	22.3	8.4	-	-
Unsecured bank loans	-	60.0	-	-
Trade creditors	156.7	131.9	-	-
Obligations under finance leases (Note 18)	0.2	0.2	-	-
Amounts due to subsidiary undertakings	-	-	61.0	71.3
Corporation tax payable	59.8	59.9	-	-
Other taxation and social security	53.2	42.6	-	-
Other creditors and accruals	257.1	211.6	6.1	4.8
Proposed dividend	70.8	62.0	70.8	62.0
	620.1	576.6	137.9	138.1

Bank loans and overdrafts fall due within one year of the balance sheet date or on demand. The unsecured bank loans in 2004 were drawn down under a medium term bank revolving credit facility committed until September 2007.

At 29 January the Group had given indemnities of £11.0m (2004: £28.0m) in favour of various surety companies in respect of bonds given by them to HM Customs & Excise. The Group has also given guarantees of £15.1m (2004: £12.6m) to bankers in respect of the borrowings of certain subsidiary and associated undertakings.

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Corporate bond	300.0	300.0	300.0	300.0
Obligations under finance leases (Note 18)	0.6	0.6	-	-
Other creditors and accruals	48.7	52.1	-	-
	349.3	352.7	300.0	300.0

The corporate bond is repayable in 2013 and bears interest at the rate of 5.25%.

18 Obligations under finance leases

	Group	
	2005 £m	2004 £m
Amounts payable:		
Within one year	0.2	0.2
In two to five years	0.7	0.7
	0.9	0.9
Less: finance charges allocated to future periods	(0.1)	(0.1)
	0.8	0.8
Finance lease contracts are analysed as follows:		
Current obligations (Note 16)	0.2	0.2
Non-current obligations (Note 17)	0.6	0.6
	0.8	0.8

Notes to the Accounts

19 Provision for liabilities and charges

	Group	
	2005	2004
	£m	£m
Vacant property costs	10.0	10.0
Deferred tax (Note 20)	13.3	8.7
	<u>23.3</u>	<u>18.7</u>

The movement in the year on the vacant property provision is as follows:

	Group
	£m
At January 2004	10.0
Charged during the year	1.4
Utilised	(1.4)
At January 2005	<u>10.0</u>

20 Deferred taxation

	Group	
	2005	2004
	£m	£m
Accelerated capital allowances	25.9	20.5
Other timing differences	(12.6)	(11.8)
Deferred taxation liability	<u>13.3</u>	<u>8.7</u>

The movement in the year is as follows:

	Group
	£m
At January 2004	8.7
Deferred tax charge	4.6
At January 2005	<u>13.3</u>

No recognition has been made of the following deferred tax assets:

	Group	
	2005	2004
	£m	£m
Property development trading losses	1.2	2.6
Capital losses, net of rolled over gains	31.0	30.5
Total potential deferred tax assets	<u>32.2</u>	<u>33.1</u>

The benefit of unrecognised losses will only accrue when taxable profits are realised on sale of the Group's property development stock or gains are realised on future disposals of the Group's capital assets.

Notes to the Accounts

21 Called up share capital

The share capital of the Company is shown below:

	2005 '000	2004 '000	2005 £m	2004 £m
Authorised				
Ordinary shares of 10p each	400,500	400,500	<u>40.1</u>	<u>40.1</u>
Allotted, called up and fully paid				
Ordinary shares of 10p each	261,103	265,071	<u>26.1</u>	<u>26.5</u>

The Company purchased 3,517,421 of its own ordinary shares of 10p each in the open market for cancellation between 17 May 2004 and 11 January 2005 at a cost of £50.2m. The Company also purchased for cancellation 450,000 of its own ordinary shares of 10p each under off-market contingent purchase contracts between 8 December 2004 and 26 January 2005 at a cost of £7.1m.

At the year end date, the Company was party to two off-market contingent purchase contracts under which a maximum of 2,300,000 shares might be purchased for cancellation at a maximum potential cost of £36.2m. The purchase of these shares is dependent upon the Company's share price not reaching a pre-determined level during the remainder of each contract period.

Share options

The following options have been granted and remain outstanding at 29 January 2005 in respect of ordinary shares of 10p each in the Company:

Number of shares	9,734,045 (2004: 9,315,338)
Prices at which options are exercisable	340p – 1,412p
Weighted average	997.1p (2004: 807.0p)
Period during which options are exercisable	Up to April 2014

22 Share capital and reserves

	Ordinary shares £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	ESOP reserve £m	Other reserves £m	Profit and loss account £m
The Group							
At January 2004 as previously stated	26.5	0.6	14.0	3.4	–	(1,448.9)	1,625.4
Prior period adjustment	–	–	–	–	(72.8)	–	6.9
At January 2004 as restated	26.5	0.6	14.0	3.4	(72.8)	(1,448.9)	1,632.3
Shares purchased for cancellation	(0.4)	–	–	0.4	–	–	(57.3)
Shares purchased by ESOP	–	–	–	–	(41.1)	–	–
Shares issued by ESOP	–	–	–	–	16.0	–	–
ESOP adjustment	–	–	–	–	4.6	–	(3.2)
Transfer of depreciation on revalued property	–	–	(0.2)	–	–	–	0.2
Transfer of realised property profits	–	–	(4.4)	–	–	–	4.4
Exchange movement	–	–	–	–	–	–	0.6
Profit transferred for the year	–	–	–	–	–	–	198.0
At January 2005	<u>26.1</u>	<u>0.6</u>	<u>9.4</u>	<u>3.8</u>	<u>(93.3)</u>	<u>(1,448.9)</u>	<u>1,775.0</u>

Notes to the Accounts

22 Share capital and reserves (continued)

<i>The Company</i>	Ordinary shares £m	Share premium account £m	Capital redemption reserve £m	ESOP reserve £m	Other reserves £m	Profit and loss account £m
<i>At January 2004 as previously stated</i>	26.5	0.6	3.4	–	985.2	1,293.7
<i>Prior period adjustment</i>	–	–	–	(72.8)	–	6.9
<i>At January 2004 as restated</i>	26.5	0.6	3.4	(72.8)	985.2	1,300.6
<i>Shares purchased for cancellation</i>	(0.4)	–	0.4	–	–	(57.3)
<i>Shares purchased by ESOP</i>	–	–	–	(41.1)	–	–
<i>Shares issued by ESOP</i>	–	–	–	16.0	–	–
<i>ESOP adjustment</i>	–	–	–	4.6	–	(3.2)
<i>Loss transferred for the period</i>	–	–	–	–	–	(115.5)
<i>At January 2005</i>	26.1	0.6	3.8	(93.3)	985.2	1,124.6

Other reserves in the consolidated balance sheet represent the reserve created on reduction of share capital through the Scheme of Arrangement under Section 425 of the Companies Act 1985 (£1,460.7m) less share premium account (£3.8m) and capital redemption reserve (£8.7m) at the time of capital reconstruction in 2002 plus the accumulated amount of goodwill arising on acquisition after taking into account subsequent disposals (£0.7m).

Other reserves in the Company balance sheet represent the difference between the market price and the nominal value of shares issued as part of the capital reconstruction on acquisition of Next Group Plc which has been subject to s131 merger relief (£985.2m).

23 Reconciliation of shareholders' funds

	2005 £m	2004 £m Restated
Total recognised gains and losses relating to the year (Page 26)	301.6	248.5
Dividends	(103.0)	(89.3)
Shares purchased for cancellation	(57.3)	(209.0)
New ordinary share capital issued	–	0.6
Purchase of own shares by ESOP	(41.1)	(40.2)
Proceeds from issue of shares by ESOP	16.0	16.2
Share option charge	1.4	0.2
Total movement during the year	117.6	(73.0)
Opening shareholders' funds as restated (Page 27)	155.1	228.1
Closing shareholders' funds (Page 27)	272.7	155.1

Notes to the Accounts

24 Note of historical cost profits and losses

	2005 £m	2004 £m Restated
Reported profit on ordinary activities before taxation	422.9	358.2
Realisation of property revaluation profits of previous years	0.2	0.5
Difference between historical cost depreciation charge and actual charge calculated on the revalued amount	4.4	0.3
	<u>427.5</u>	<u>359.0</u>
Historical cost profit on ordinary activities before taxation	427.5	359.0
Historical cost profit for the year retained after taxation and dividends	<u>202.6</u>	<u>161.6</u>

25 Shares held by ESOP

The NEXT 2003 Employee Share Ownership Plan Trust (the "ESOP") is a trust, with an independent professional trustee resident in Jersey, providing for the issue of shares to Group employees, including share issues under share options, at the discretion of the Trustee.

At 29 January 2005 the Trustee owned 8,954,863 (2004: 8,286,212) ordinary shares of 10p each in the Company, the market value of which amounted to £142.6m (2004: £107.1m). Details of outstanding share options are shown in Note 21.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOP at 29 January 2005 has been shown as an ESOP reserve and deducted in arriving at shareholders' funds for the Group and Company. All other assets, liabilities, income and costs of the ESOP have been incorporated into the accounts of the Company and the Group.

26 Cash flow: reconciliation of operating profit to net cash flow

	2005 £m	2004 £m Restated
Profit before interest	441.1	375.5
Depreciation	70.9	62.3
Amortisation of goodwill	4.3	4.4
(Profit)/loss on disposal of fixed assets	(0.9)	1.4
Share option charge	1.4	0.2
Income from interest in associated undertakings	0.5	(0.7)
Increase in stock	(32.2)	(25.6)
Increase in debtors	(57.4)	(61.9)
Increase in creditors	78.1	48.3
Exchange movement	0.7	(1.7)
	<u>506.5</u>	<u>402.2</u>
Net cash inflow from operating activities	506.5	402.2

27 Cash flow: management of liquid resources

	2005 £m	2004 £m
Cash placed on short term deposits	(40.0)	(33.0)
Cash withdrawn from short term deposits	38.0	37.3
	<u>(2.0)</u>	<u>4.3</u>
Cash (outflow)/inflow from management of liquid resources	(2.0)	4.3

Notes to the Accounts

28 Cash flow: analysis of net debt

	January 2004 £m	Cash flow £m	Other non-cash changes £m	January 2005 £m
Cash in hand	57.3	10.0	–	67.3
Overnight deposits/(borrowings)	2.0	(17.6)	–	(15.6)
Overdrafts	(8.4)	1.7	–	(6.7)
	50.9	(5.9)	–	45.0
Short term deposits	3.0	2.0	–	5.0
Unsecured bank loans	(60.0)	60.0	–	–
Corporate bond	(300.0)	–	–	(300.0)
Finance leases	(0.8)	0.2	(0.2)	(0.8)
Total	(306.9)	56.3	(0.2)	(250.8)

29 Financial instruments

An explanation of the Group's objectives, policies and strategies in the use of derivatives and other financial instruments is included in the Directors' Report.

30 Financial instruments: interest rate risk profile

The interest rate profile of financial assets and liabilities at 29 January 2005 was as follows:

Financial assets:	2005				2004			
	Fixed £m	Floating £m	Nil £m	Total £m	Fixed £m	Floating £m	Nil £m	Total £m
Currency								
Sterling	4.5	58.7	–	63.2	–	44.8	0.1	44.9
Hong Kong dollar	–	1.2	–	1.2	–	8.9	–	8.9
US dollar	–	7.3	0.4	7.7	–	8.3	0.1	8.4
Other	–	–	0.2	0.2	–	–	0.1	0.1

Fixed rate financial assets comprise short term money market deposits at fixed interest rates. Floating rate financial assets comprise Sterling denominated bank deposits and credit balances that accrue interest at rates based on LIBOR and UK bank base rates respectively and Hong Kong dollar denominated bank deposits at rates based on HIBOR and US dollar bank deposits at Prime rates.

Financial liabilities:	2005				2004			
	Fixed £m	Floating £m	Nil £m	Total £m	Fixed £m	Floating £m	Nil £m	Total £m
Currency								
Sterling	200.6	121.3	–	321.9	200.6	167.6	–	368.2
US Dollar	–	–	24.6	24.6	–	–	27.4	27.4
Other	–	1.0	–	1.0	–	0.8	–	0.8

Fixed rate financial liabilities principally comprise Sterling denominated fixed rate corporate bonds with a weighted average interest rate of 4.74% (2004: 4.74%), fixed for a weighted average period of 2.2 years (2004: 3.2 years). Floating rate financial liabilities principally comprise Sterling denominated fixed rate corporate bonds which are subject to interest rate hedging arrangements and Sterling denominated bank loans and overdrafts that bear interest at rates based on LIBOR and UK bank base rates respectively. Financial liabilities on which no interest is paid relate to deferred consideration payable in 2007.

Notes to the Accounts

31 Financial instruments: foreign currency assets and liabilities

Foreign currency net monetary assets/(liabilities) at 29 January 2005 were as follows:

Functional currency of Group operation	Sterling £m	US dollar £m	HK dollar £m	Euro £m	Other £m	Total £m
2005:						
Sterling	–	(29.0)	(1.3)	(9.9)	0.2	(40.0)
US dollar	3.9	–	–	(0.1)	(0.9)	2.9
Hong Kong dollar	1.0	(4.3)	–	–	–	(3.3)
Indian rupee	1.6	–	–	–	–	1.6
	<u>6.5</u>	<u>(33.3)</u>	<u>(1.3)</u>	<u>(10.0)</u>	<u>(0.7)</u>	<u>(38.8)</u>
2004:						
Sterling	–	(30.6)	(0.5)	(8.9)	(0.3)	(40.3)
US dollar	1.9	–	–	–	(0.1)	1.8
Hong Kong dollar	1.0	2.3	–	–	–	3.3
	<u>2.9</u>	<u>(28.3)</u>	<u>(0.5)</u>	<u>(8.9)</u>	<u>(0.4)</u>	<u>(35.2)</u>

32 Financial instruments: committed borrowing facilities

The committed facilities available at 29 January 2005 in respect of which all conditions precedent had been met were as follows:

	2005 £m	2004 £m
Expiring in more than two years, but not more than five years	<u>300.0</u>	<u>350.0</u>

None of these facilities were drawn down at 29 January 2005 (2004: £60.0m).

33 Financial instruments: fair value

The fair values of financial assets and liabilities calculated at market rates at 29 January 2005 were as follows:

	Notional amount £m	Carrying amount £m	Fair value amount £m
2005:			
Foreign currency forward contracts	354.3	–	(4.2)
Foreign currency option contracts	170.7	–	(4.4)
Interest rate derivative contracts	600.0	–	(9.1)
Short term and overnight deposits/(borrowings)	–	(10.6)	(10.6)
Cash at bank and in hand	–	67.3	67.3
Other borrowings falling due within one year	–	(6.7)	(6.7)
Corporate bond	–	(300.0)	(300.0)
Obligations under finance leases falling due after more than one year	–	(0.6)	(0.6)

Notes to the Accounts

33 Financial instruments: fair value (continued)

	Notional amount £m	Carrying amount £m	Fair value amount £m
2004:			
Foreign currency forward contracts	279.1	–	(11.9)
Foreign currency option contracts	284.4	–	(13.1)
Interest rate derivative contracts	600.0	–	(12.9)
Short term and overnight deposits	–	5.0	5.0
Cash at bank and in hand	–	57.3	57.3
Unsecured bank loans due within one year	–	(60.0)	(60.0)
Other borrowings falling due within one year	–	(8.4)	(8.4)
Corporate bond	–	(300.0)	(300.0)
Obligations under finance leases falling due after more than one year	–	(0.6)	(0.6)

Fair values have been determined using market quoted rates at the year end date and, where appropriate, cashflows have been discounted to present value using prevailing market interest rates. Market rates as at 29 January 2005 were US dollar 1.88 (2004: 1.82) and Euro 1.45 (2004: 1.47).

The interest rate derivative contracts amounting to £600m comprise: £300m of fixed to floating rate swaps with a duration remaining of 8.3 years and matched against the Sterling fixed rate bond issued in 2003; £200m of floating to fixed rate swaps with an average duration remaining of 2.2 years; and £100m representing the purchase of a £50m interest rate cap and the sale of a £50m interest rate floor, each with a duration remaining of less than one year.

The Group does not recognise any accrued but unrealised gains or losses on currency or interest rate instruments until the relevant contract is concluded. Save for £5.7m of unrealised net losses on interest rate derivative contracts due to mature after January 2006, all of the unrealised net losses of £17.7m at 29 January 2005 on currency and interest rate instruments are expected to be dealt with in the profit and loss account for the year to January 2006. £28.5m of the unrealised net losses of £37.9m at 31 January 2004 on currency and interest rate instruments were dealt with in the profit and loss account for the year to January 2005.

34 Capital commitments

	2005 £m	2004 £m
Contracted for but not provided in these accounts	23.6	19.3

35 Commitments under operating leases

	Land and buildings £m	Other £m	2005 Total £m	2004 Total £m
The Group				
Commitment expires in year to January 2006	3.2	0.8	4.0	6.2
Commitment expires February 2006 to January 2010	9.9	4.7	14.6	15.4
Commitment expires beyond January 2010	126.6	0.2	126.8	112.4
Payments to be made in year to January 2006	139.7	5.7	145.4	134.0

Notes to the Accounts

36 Pension commitments

The Group operates a pension scheme in the UK which consists of defined benefit and defined contribution sections. The defined benefit section is a funded arrangement which provides benefits based on final pensionable earnings which are salaries, overtime and annual performance bonuses and was closed to new members in September 2000. The defined contribution section is for all members who joined after September 2000 and benefits are based on each individual member's personal account. The scheme has equal pension rights with respect to members of either sex. The assets of the scheme are held in a separate trustee administered fund.

SSAP 24 Accounting for Pension Costs

The Group continues to report its pension costs in accordance with SSAP 24 Accounting for Pension Costs. The most recent formal actuarial valuation of the defined benefit section was undertaken by an independent professionally qualified actuary as at 31 March 2004 using the projected unit method.

The principal financial assumptions which have the most significant effect on the computation of the pension costs are those related to the rate of return on the investments and the rates of increase in earnings and pensions. These assumptions have been derived from market yields applying at the valuation date. In particular, the investment return used relating to pre-retirement liabilities was 2.75% per annum in excess of the assumed rate of increase in earnings and the investment return used relating to post-retirement liabilities was 2.25% per annum in excess of the assumed rate of pension increases. Demographic assumptions have also been taken into account, in particular the general trend in mortality experience.

At 31 March 2004, the market value of the assets of the defined benefit section was £206m representing 80% of the liability for benefits that had accrued to members after allowing for expected future increases in earnings. A charge of £5m has been recognised in the year (2004: £6m) as a variation in regular pension cost in respect of this deficit. The regular pension cost amounted to £11.8m (2004: £10.3m). From April 2003 the Group increased employer contributions to the scheme from 12.5% to 13.4% and increased them further to 15.5% with effect from April 2004. Total employer contributions of £19.4m (2004: £15.6m) were made in the year including a £7.5m (2004: £5m) contribution in respect of the deficit on the defined benefit section and contributions of £1.4m (2004: £1.1m) in respect of the defined contribution section. At the year end, outstanding contributions to the defined contribution section included in other creditors were £0.2m (2004: £0.2m).

Pension contributions for the Group will continue to be set at a level that takes account of the past service funding position of the scheme. Full pension costs of the Group amounted to £18.6m (2004: £17.6m) including the estimated cost of meeting unfunded unapproved pension liabilities relating to scheme members whose benefits would otherwise be restricted by the Inland Revenue salary cap. There is a pension accrual in the balance sheet of £19.8m (2004: £20.9m). Further payments will be made in the year ahead in respect of the defined benefit section deficit and the Board will keep the need for any further such payments under review.

FRS 17 Retirement Benefits

The pension costs shown in these accounts comply with the current pension cost accounting standard, SSAP 24. The new pension cost accounting standard, FRS 17, is applicable for year ending January 2006 and subsequent years. Under transitional arrangements the Company is required to disclose the following information about the scheme and the treatment that would have been shown under FRS 17 in the accounts for the year ended 29 January 2005.

The information required for disclosure in accordance with FRS 17 Retirement Benefits is based on the most recent full actuarial valuation as at 31 March 2004 and updated to 29 January 2005 in order to assess the liabilities of the defined benefit section (including the unfunded, unapproved arrangement) at that date. The following financial assumptions have been used to calculate scheme liabilities under FRS 17:

	January 2005	January 2004	January 2003
Discount rate	5.25%	5.50%	5.25%
Salary increases	4.25%	4.25%	4.00%
Inflation	2.75%	2.75%	2.25%
Pension increases	2.75%	2.75%	2.25%
Increases to deferred benefits during deferment	2.75%	2.75%	2.25%

Notes to the Accounts

36 Pension commitments (continued)

The assets in the scheme and the expected rates of return were:

	Long term rate of return expected			Value at January		
	2005	2004	2003	2005	2004	2003
	£m			£m	£m	£m
Equities	6.75%	7.0%	7.0%	172.8	158.5	120.2
Bonds	5.0%	5.25%	5.0%	49.6	29.6	18.4
Property	6.5%	7.0%	7.0%	11.4	5.9	2.1
Other	4.25%	4.5%	4.5%	1.6	8.0	10.5
Total market value of assets				235.4	202.0	151.2
				2005	2004	2003
				£m	£m	£m
Total market value of assets				235.4	202.0	151.2
Present value of scheme liabilities				(328.0)	(288.4)	(252.9)
Deficit in the scheme				(92.6)	(86.4)	(101.7)
Related deferred tax asset				27.8	25.9	30.5
Net pension liability under FRS17				(64.8)	(60.5)	(71.2)

The following amounts would be included within operating profit:

	2005	2004
	£m	£m
Current service cost	11.9	11.8
Total	11.9	11.8

As a result of the defined benefit section being closed to new entrants, it is anticipated that the service cost will increase, as a percentage of total pensionable earnings, as the members of the plan approach retirement.

The following amounts would be included within other finance income/expense:

	2005	2004
	£m	£m
Expected return on scheme assets	13.9	10.3
Interest on scheme liabilities	(15.7)	(13.5)
Net finance return	(1.8)	(3.2)

The following amounts would be included in the Statement of Total Recognised Gains and Losses:

	2005	2004
	£m	£m
Difference between actual and expected return on scheme assets	4.8	30.6
Experience gains/(losses) arising on scheme liabilities	5.7	(5.0)
Effects of changes in assumptions underlying the present value of scheme liabilities	(21.0)	(9.8)
Total actuarial (losses)/gains recognised in the Statement of Total Recognised Gains and Losses	(10.5)	15.8

Notes to the Accounts

36 Pension commitments (continued)

Experience gains and losses arising on scheme liabilities are changes in the pensions liability relating to events occurring during the year, such as salary increases and changes in scheme membership.

The difference between actual and expected return on scheme assets represents 2% (2004: 15%) of the scheme assets at 29 January 2005. The experience gains (2004: losses) arising on scheme liabilities represents 2% (2004: 2%) and the total actuarial loss (2004: gain) represents 3% of scheme liabilities (2004: 6%).

	Net assets		Profit and loss reserve	
	2005	2004	2005	2004
	£m	£m	£m	£m
Group position (Page 27)	272.7	155.1	1,775.0	1,632.3
Pension accrual under SSAP 24 less related deferred tax asset	13.9	14.6	13.9	14.6
Group position excluding pension liability	286.6	169.7	1,788.9	1,646.9
Pension liability under FRS 17	(64.8)	(60.5)	(64.8)	(60.5)
Group position including pension liability	221.8	109.2	1,724.1	1,586.4

The movement in the scheme deficit during the year was as follows:

	2005	2004
	£m	£m
Opening deficit	(86.4)	(101.7)
Current service cost	(11.9)	(11.8)
Contributions	18.0	14.5
Finance (deficit)/income	(1.8)	(3.2)
Actuarial (losses)/gains	(10.5)	15.8
Closing deficit	(92.6)	(86.4)

Group Companies

The Group has taken advantage of Section 231(5) of the Companies Act 1985 in order to list only its principal subsidiary and associated undertakings at 29 January 2005. All these are wholly owned by the Company or its subsidiary undertakings, registered in England and Wales, and operate predominantly in the United Kingdom, unless otherwise stated.

Subsidiary undertakings

NEXT Group Plc	Intermediate holding company
NEXT Retail Limited ¹	Retailing of womenswear, menswear, childrenswear, home products, accessories and fashion jewellery
The NEXT Directory ²	Home shopping for womenswear, menswear, childrenswear, home products, accessories and fashion jewellery
NEXT Financial Services Limited ¹	Credit card handling and settlement services
Club 24 Limited ¹	Customer and financial services management
Ventura ³	Customer and financial services management
First Retail Finance Limited ¹	Customer and financial services management
NEXT Sourcing Limited ¹	Overseas sourcing services (Hong Kong)
NEXT Manufacturing (Pvt) Limited ¹	Garment manufacture (Sri Lanka)
NEXT Distribution Limited ¹	Warehousing and distribution services

Associated undertakings

Choice Discount Stores Limited ¹	Retailing (40%)
Cotton Traders Holdings Limited ¹	Home shopping and retailing (40%)

¹ Shareholdings held by subsidiary undertakings.

² The trade of the NEXT Directory is carried out as a division of NEXT Retail Limited.

³ Ventura is a trading name of Club 24 Limited.

Independent Auditors' Report

TO THE MEMBERS OF NEXT PLC

We have audited the group's financial statements for the year ended 29 January 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Group Balance Sheet, Consolidated Cash Flow Statement, Company Balance Sheet, Accounting Policies, the related notes 1 to 36 and Group Companies. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Summary of Performance, Chairman's Statement, Chief Executive's Review, Directors' Report, Corporate Governance statement, Corporate Responsibility Statement, unaudited part of the Remuneration Report, Half Year and Sector Analysis, Five Year History, Notice of Meeting and Shareholder Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 29 January 2005 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor

Birmingham
23 March 2005

Half Year and Sector Analysis

Year ended January

	First half £m	Second half £m	2005 £m	First half £m	Second half £m	2004 Restated £m
Turnover						
NEXT Retail	924.3	1,133.3	2,057.6	797.4	1,011.9	1,809.3
NEXT Directory	278.2	324.4	602.6	247.1	286.6	533.7
NEXT Sourcing	8.6	11.6	20.2	6.3	11.3	17.6
NEXT Franchise	14.2	19.3	33.5	13.2	15.6	28.8
Ventura	64.1	67.7	131.8	52.9	59.1	112.0
Other activities	4.1	8.7	12.8	4.1	10.5	14.6
	<u>1,293.5</u>	<u>1,565.0</u>	<u>2,858.5</u>	<u>1,121.0</u>	<u>1,395.0</u>	<u>2,516.0</u>
Profit before tax						
NEXT Retail	114.9	192.5	307.4	85.8	173.6	259.4
NEXT Directory	38.6	50.9	89.5	30.2	46.8	77.0
NEXT Sourcing	10.4	18.1	28.5	9.6	14.1	23.7
NEXT Franchise	2.5	3.5	6.0	2.4	2.9	5.3
Ventura	6.4	6.5	12.9	5.9	9.5	15.4
Other activities	(0.3)	(1.5)	(1.8)	(1.0)	(4.1)	(5.1)
Share option charge	(0.6)	(0.8)	(1.4)	(0.4)	0.2	(0.2)
	<u>171.9</u>	<u>269.2</u>	<u>441.1</u>	<u>132.5</u>	<u>243.0</u>	<u>375.5</u>
Profit before interest	171.9	269.2	441.1	132.5	243.0	375.5
Net interest payable	(9.2)	(9.0)	(18.2)	(7.2)	(10.1)	(17.3)
	<u>162.7</u>	<u>260.2</u>	<u>422.9</u>	<u>125.3</u>	<u>232.9</u>	<u>358.2</u>
Profit before tax	162.7	260.2	422.9	125.3	232.9	358.2

Five Year History

Year ended January	2005 £m	2004 £m Restated	2003 £m	2002 £m	2001 £m
Turnover	2,858.5	2,516.0	2,202.6	1,871.7	1,588.5
Profit before interest	441.1	375.5	301.5	258.6	213.8
Net interest (payable)/receivable	(18.2)	(17.3)	(0.3)	7.2	4.6
Profit before taxation	422.9	358.2	301.2	265.8	218.4
Taxation	(121.9)	(108.1)	(90.7)	(76.0)	(60.8)
Profit after taxation	301.0	250.1	210.5	189.8	157.6
Dividends	(103.0)	(89.3)	(86.0)	(89.0)	(73.7)
Profit transferred to reserves	198.0	160.8	124.5	100.8	83.9
Shareholders' funds	272.7	155.1	275.1	546.9	499.7
Shares purchased for cancellation	4.0m	21.7m	43.9m	6.4m	37.4m
Dividend per share	41.0p	35.0p	31.0p	27.5p	24.0p
Earnings per share	118.5p	93.9p	68.7p	58.1p	46.8p

Notice of Meeting

Notice is hereby given that the Annual General Meeting of NEXT plc will be held at One Great George Street, Westminster, London, SW1P 3AA on Wednesday 18 May 2005 at 11.00 a.m. at which the following resolutions will be proposed; resolutions 1 to 10 as Ordinary Resolutions and 11 to 14 as Special Resolutions.

Ordinary business

- 1 To receive and adopt the accounts and reports of the directors and auditors for the period ended 29 January 2005.
- 2 To approve the remuneration report for the period ended 29 January 2005.
- 3 To declare a final dividend of 28p per share in respect of the period ended 29 January 2005.
- 4 To elect Jonathan Dawson as a director who retires according to Article 97 having been appointed by the Board during the year.
- 5 To elect Christine Cross as a director who retires according to Article 97 having been appointed by the Board during the year.
- 6 To re-elect Simon Wolfson as a director who retires by rotation according to Article 91.
- 7 To re-elect Andrew Varley as a director who retires by rotation according to Article 91.
- 8 To re-appoint Ernst & Young LLP as auditors and authorise the directors to set their remuneration.

Biographies of directors seeking re-election are shown on page 9 of the Annual Report.

Special business

To consider and, if thought fit, pass the following resolutions, of which resolutions 9 and 10 will be proposed as Ordinary Resolutions and resolutions 11 to 14 as Special Resolutions.

9 Management share option plan (excluding directors)

- (a) That the Next Management Share Option Plan (the "Plan"), the main features of which are summarised in Appendix 1 on pages 57 to 58 and a copy of which is produced to the Meeting and signed by the Chairman for identification, be and is hereby approved and the directors are hereby authorised to take any action as they consider necessary to implement the Plan;
- (b) That the directors are hereby authorised to establish plans based on the Plan as they consider appropriate for employees resident outside the UK, having regard to local tax and securities laws and exchange controls (provided that any awards granted under those plans shall be treated as granted under the Plan for the purpose of the individual and overall limits on participation).

10 Authority to allot shares under Section 80 Companies Act 1985

That the directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (as defined in the said Section) up to an aggregate nominal amount of £8,500,000 such authority to expire on 18 May 2010 but to be capable of previous revocation or variation by the Company in general meeting and of renewal from time to time by the Company in general meeting for a further period not exceeding five years provided that:

- (a) the Company may make any offer or agreement before the expiry of this authority that would or might require relevant securities to be allotted after this authority has expired; and
- (b) all previous authorities to allot securities conferred by resolution of the Company pursuant to Section 80 of the Act or otherwise be and they are hereby revoked (to the extent that they have not been previously utilised).

11 Authority to allot shares under Section 95 Companies Act 1985

That the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the "Act"), in substitution for any existing authority to allot relevant securities, to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority conferred by resolution 10 set out in the Notice of this Meeting for cash and sell relevant shares (as defined in Section 94 of the Act) held by the Company as treasury shares (as defined in Section 162A of the Act) for cash, as if Section 89(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:

- (a) the allotment of equity securities and the sale of treasury shares in connection with a rights issue, open offer or other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem fit to deal with fractional entitlements or any legal or practical problems arising under the laws of any territory or requirements of any regulatory body or stock exchange in any territory; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities and the sale of treasury shares up to an aggregate nominal value of £1,300,000 being less than 5% of the issued ordinary share capital outstanding at 21 March 2005 and shall expire on 18 May 2010 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

12 On-market purchase of own shares

That in accordance with Article 46 of the Articles of Association of the Company and Section 166 of the Companies Act 1985 (the "Act"), the Company be hereby granted general and unconditional authority to make market purchases (as defined in Section 163 of the Act) of any of its own ordinary shares provided that the authority conferred by this resolution shall:

- (i) be limited to the lesser of 39,000,000 ordinary shares of 10p each or no more than 15% of the issued ordinary share capital outstanding at the date of the Annual General Meeting, such limit to be reduced by the number of any shares purchased pursuant to the authority granted at resolution 13 below;
- (ii) the minimum price which may be paid for ordinary shares is 10p per ordinary share;
- (iii) the maximum price which may be paid for each ordinary share is an amount not more than 5 per cent over the average of the middle market price of the ordinary shares of the Company according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase;
- (iv) the authority hereby conferred shall expire on whichever is the earlier of:
 - (a) 18 months after the date on which this resolution is passed, and
 - (b) the conclusion of the Annual General Meeting of the Company held in 2006;
- (v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority.

Notice of Meeting

13 Contingent contracts and off-market share purchases

That, for the purposes of Sections 164 and 165 of the Companies Act 1985, the proposed programme agreements to be entered into between the Company and each of Goldman Sachs International, UBS AG and Deutsche Bank AG in the form produced to this meeting and initialled by the Chairman for the purpose of identification ("the Programme Agreements") be and are hereby approved and the Company be and is hereby authorised to enter into the Programme Agreements and all and any contingent forward trades which may be effected or made from time to time under or pursuant to the Programme Agreements for the contingent off-market purchase by the Company of its ordinary shares of 10 pence each for cancellation, as more fully described in Appendix 2 on pages 58 to 59 (the authority conferred by this special resolution to expire on whichever is the earlier of 18 months after the date on which this resolution is passed and the conclusion of the Annual General Meeting of the Company held in 2006, unless such authority is renewed prior to that time (except in relation to the purchase of ordinary shares under any contingent forward trade effected or made before the expiry of such authority and which might be completed wholly or partly after such expiry)), and provided that shares purchased pursuant to this authority will reduce the number of shares that the Company may purchase under the general authority granted under resolution 12 above.

14 Change in Articles of Association

That the existing Article 141 of the Company's Articles of Association be deleted and replaced with the new Article 141 set out below:

" 141 Subject to the provisions of the Act, the Company may:

- (a) indemnify any person who is or was a director, directly or indirectly (including by funding any expenditure incurred or to be incurred by the director), against any loss or liability, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him or otherwise, in relation to the Company or any associated company; and/or
- (b) purchase and maintain insurance for any person who is or was a director against any loss or liability or any expenditure he may incur, whether in connection with any proven or alleged negligence, default, breach of duty or breach of trust by him or otherwise, in relation to the Company or any associated company.

For the purposes of this article, "associated company" has the same meaning as in Section 309A of the Act."

By order of the Board.

A J R McKinlay, Secretary
Registered Office
Desford Road, Enderby
Leicester, LE19 4AT

13 April 2005

APPENDIX 1

FURTHER INFORMATION ON RESOLUTION 9: NEXT MANAGEMENT SHARE OPTION PLAN

The Company's management share option scheme, established in 1995 for a 10 year period, expires in May 2005. Since 1997, NEXT has operated three share incentive schemes for its staff. Executive directors and senior management participate in a shareholder approved long-term incentive plan ("LTIP"), middle management and senior store staff are granted options under the current management share option scheme and a Sharesave scheme is open to all employees, including executive directors.

Management options are granted annually to employees at the discretion of the Board and are exercisable between three and ten years following grant. The 2004 grant was typical in that options over approximately 1.85m shares were granted to 874 employees. The scheme has proven to be a very effective incentive to NEXT's middle management and senior store employees, who have contributed significantly to the success of the Company over the last decade, and shareholder approval is now sought to replace the current scheme.

From the start of the LTIP in 1997, NEXT's policy has been that no management share options are granted in the same year to any individual who participates in its LTIP. This policy is to be incorporated into the rules of the replacement plan and directors would also be excluded from participating (whether or not they received LTIP awards). Participation will continue to be focussed on middle and store management who have a significant role in the implementation of Company strategy. This is believed to have been a major factor in the retention of key staff and one of the reasons underlying the success of NEXT in recent years.

In many respects, the new plan represents a continuation of the existing arrangements. Since the current scheme was introduced, there have been changes in what is perceived to be "best practice" for senior executive incentives. The Remuneration Committee has had regard to these changes in designing the new plan. However, since the directors and senior management will not participate in the new plan, certain of these "best practice" provisions are not considered appropriate.

A summary of the proposed plan is given below and copies of the draft rules will be available for inspection up to and including the date of the Annual General Meeting, as noted in the Directors' Report on page 12.

SUMMARY OF THE PROPOSED NEXT MANAGEMENT SHARE OPTION PLAN ("the Plan")

Eligibility

Employees (excluding main board directors and senior executives who participate in the LTIP) who are not within 6 months of their contractual retirement age will be eligible to participate at the discretion of the Remuneration Committee.

Grant of options

Options may normally be granted within the 6 weeks after the announcement by the Company of its results for any period. Options can either be Inland Revenue approved (where the beneficiary may qualify for tax relief) or unapproved. No options may be granted later than 10 years after approval of the Plan by shareholders.

Grants of options will be supervised by the Remuneration Committee which consists solely of non-executive directors. No payment will be required for the grant of an option. The maximum total market value of shares (i.e. the acquisition price of shares) over which options may be granted to any person during any financial year of the Company is 3 times salary, excluding bonuses and benefits in kind. This limit may be increased to 5 times salary in circumstances considered by the Remuneration Committee to be exceptional, for example, on the grant of options following recruitment.

Acquisition price

The Remuneration Committee shall decide before an option is granted the price at which shares may be acquired by the exercise of that option, but the price shall not be less than the middle-market quotation for an ordinary share on the London Stock Exchange on the dealing day immediately preceding the grant of the option.

Method of satisfying options

The current intention is that existing rather than new issue shares will continue to be used to satisfy options in order to prevent dilution of shareholders' interests. The Company has not issued any new shares to satisfy share options in the last 10 years. A facility to use new issue/treasury shares has been incorporated in the rules should it be considered appropriate to use such shares in the future.

Limits on the issue of shares

No options may be granted which would cause the number of new issue/treasury shares, which have been or may be issued pursuant to options granted under all the Company's share option schemes in a 10 year period, to exceed 10 per cent of its ordinary share capital in issue at that time. Furthermore, of this 10 per cent, not more than half (i.e. 5 per cent) may relate to share options other than savings related options.

Exercise of options – performance conditions

An option may normally be exercised only following satisfaction of a performance condition set by the Remuneration Committee. An option will normally be exercisable between 3 and 10 years following its grant provided the relevant performance condition is satisfied.

The Plan will continue past practice of having an earnings per share based performance condition that allows options to be exercised in full when the condition is met. Earnings per share growth must exceed growth in the Retail Price Index by 3% per year over a period of at least 3 years. As the objective is to provide retentive, as well as incentive, grants to middle and store management, it is considered inappropriate to set targets and scales that are so complex as to devalue the benefit. The Plan does not allow for retesting.

Notice of Meeting

Options may be exercised in full, irrespective of the period for which they have been held, following cessation of employment due to redundancy, retirement, death or permanent disability or at the discretion of the Remuneration Committee. Options may also be exercised on a change of control, takeover, compulsory acquisition, scheme of arrangement, winding up or demerger. In all these circumstances the performance condition will not apply. The maximum period allowed for exercise after cessation of employment is generally 6 months. Those employees who resign will generally lose their option rights.

Adjustment of options

In the event of any variation of the share capital of the Company or on the occurrence of any other event similarly affecting the Company's share price, the Remuneration Committee may generally adjust the number of shares subject to options and the price payable on their exercise.

Alterations

The Remuneration Committee may alter the Plan or the terms of any option. However, the prior approval of shareholders must be obtained for alterations made to the advantage of participants in respect of provisions relating to eligibility, individual and overall limits, the basis for determining a participant's entitlement to, and the terms of, shares provided under the Plan, the adjustment of options for variations in capital and the alteration of the Plan. The requirement to obtain prior approval of shareholders will not apply to a minor alteration to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment. An alteration to the performance condition may also be made by the Remuneration Committee without shareholder approval so long as an event has occurred which causes the Remuneration Committee to consider that the condition would not, without alteration, achieve its original purpose and the altered condition will be not materially less difficult to satisfy than the unaltered condition would have been.

APPENDIX 2

EXPLANATORY NOTE ON RESOLUTION 13: CONTINGENT PURCHASE CONTRACTS

By virtue of special resolution number 9 passed at the Company's Annual General Meeting ("AGM") on 13 May 2004, shareholder authority was given to the Company make on-market purchases of ordinary shares for cancellation. This authority is limited to a maximum of 39 million shares and expires on the earlier of the date of the next AGM held in 2005 or 13 November 2005. At an extraordinary general meeting on 29 November 2004, authority was granted to the Company to make off-market purchases of shares for cancellation under contingent purchase contracts entered into with Goldman Sachs International. This authority was limited to a maximum of 6 million shares and expires on the earlier of the date of the next AGM to be held in 2005 or 29 April 2006. Since the granting of those authorities, the Company has bought back 4,717,421 shares for cancellation, representing 1.8% of its issued share capital at 31 January 2004, at a total cost £69.2 million. Of these purchases, 1,200,000 shares were brought pursuant to contingent purchase contracts at a total cost of £19.0 million.

Under Sections 164 and 165 of the Companies Act 1985, the Company is not permitted to make off-market purchases or contingent purchases of its shares unless it obtains advance shareholder approval to the proposed contract terms. Furthermore, under the rules of the UK Listing Authority (the "Listing Rules") the Company may not purchase its shares at a time when any director is in receipt of unpublished price sensitive information about the Company. Accordingly, no purchases of shares would normally be made in periods when the directors might be in receipt of unpublished price sensitive information ("Close Periods"). Typically, these include the periods from the Company's half year end up to the announcement of its interim results in September and the January year end up to the announcement of full year results in March each year. These Close Periods inevitably reduce the number of shares the Company is able to purchase.

In order to achieve maximum flexibility in its share purchase activities, the Company has previously entered into irrevocable and non-discretionary programmes to allow it to buy shares during Close Periods. Another method of providing flexibility in its share purchase activities is for the Company to enter into further contingent forward purchase contracts outside of Close Periods. The Company proposes to enter into an agreement with each of three banks (the "Programme Agreements"), under which it may (although it is not obliged to) effect contingent forward trades ("Contingent Forward Trades" or "CFT") from time to time. Under the terms of each CFT, the Company may purchase a fixed number of shares each week over a period of between 20 to 30 weeks. The maximum number of shares that can be purchased under each CFT is limited to 50,000 shares per week. Details of each CFT will be announced to shareholders on the day it is entered into by the Company.

Whether or not the Company purchases shares in a particular week during the term of a CFT is dependent upon the Company's share price not reaching a level set at the time that contract is entered into (the "Suspension Level"). The Suspension Level is determined by the Company and must be between 104% and 110% of the Company's share price as at the start of the CFT.

The price at which the Company may purchase shares during the term of a Contingent Forward Trade (the "Forward Price") shall also be fixed at the start of the CFT. The Forward Price is subject to a maximum of 99% of the share price at the start of the contract and a minimum of 10 pence (the par value of a share).

This structure would allow the Company to purchase shares at a discount to the market price (as at the time each CFT commences), for so long as the Suspension Level is not reached, without breaching the Listing Rules. If the Suspension Level is reached, the CFT would terminate automatically at that time and no further shares would be purchased under that contract. In such circumstances, a reduced number of shares would be purchased by the Company for cancellation under that contract.

Under the provisions of Sections 164 and 165 of the Companies Act 1985, the Programme Agreements and Contingent Forward Trades are contingent purchase contracts to purchase shares by the Company off-market. Accordingly resolution 13, which will be proposed as a special resolution, seeks shareholder approval to the terms of the Programme Agreements to be entered into between the Company

Notice of Meeting

and each of Goldman Sachs International, UBS AG and Deutsche Bank AG (the "Bank(s)"). A copy of each of the Programme Agreements will be available at the AGM. Copies will also be available for inspection at the Company's registered office at Desford Road, Enderby, Leicester LE19 4AT or at the offices of the Company's legal advisers, Eversheds, Senator House, 85 Queen Victoria Street, London EC4V 4JL until the date of the AGM and at the AGM itself. The Programme Agreements will have a duration of the shorter of the period to the date of the next AGM or one year and will incorporate the terms of an ISDA Master Agreement and Schedule. The Programme Agreements will be entered into and each CFT will be effected outside a Close Period but shares may be purchased during a Close Period by the Company. The minimum and maximum amount of time between a CFT being effected and shares being purchased is 5 days and 30 weeks respectively.

Should shareholder approval be granted, any number of CFT may be effected with the Banks at any time, provided that:

- the total maximum number of shares which the Company is permitted to purchase pursuant to this authority would be 6 million, representing 2.3% of its issued share capital at 21 March 2005;
- the total cost of shares that the Company would be permitted to purchase pursuant to this authority may not exceed £100 million (including costs);
- the Forward Price may not exceed 105% of the average middle market closing price of the Company's shares as derived from the Official List of the London Stock Exchange for the five days immediately preceding the day on which the Contingent Forward Trade was effected;
- the Forward Price will be no more than 99% of the share price at the time the Contingent Forward Trade was effected;
- the minimum price that can be paid for any share is £0.10; and
- only one Contingent Forward Trade will be effected on any particular day.

Subject to the limits set out above, the Company will select the Suspension Level and the duration of each CFT, and the Forward Price will be determined by the relevant Bank. Shares purchased via the Programme Agreements will reduce the number of shares that the Company may purchase under any authority granted at the AGM on 18 May 2005 for on-market purchases. No shares will be purchased under that authority on the same day that a CFT is entered into. The authority granted to the Company under this resolution will expire at the conclusion of the AGM of the Company held in 2006 or on 18 November 2006, whichever is the earlier, unless such authority is renewed prior to that time (except in relation to the purchase of shares under any CFT effected before the expiry of such authority and which might be completed wholly or partly after such expiry). The purchase of shares under the Programme Agreements will always be physically settled by delivery of shares to the Company (except in the case of certain events of default or termination events).

The total number of options to subscribe for shares outstanding at 21 March 2005 was 9,600,768. This represents 3.7% of the issued share capital at that date. If the Company was to buy back the maximum number of shares permitted pursuant to this special resolution, then the total number of options to subscribe for shares outstanding at 21 March 2005 would represent 3.8% of the reduced issued share capital.

The directors will use this authority only after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate financial gearing levels and the overall financial position of the Company. The directors will only purchase shares after taking into account the effect on earnings per share and the benefit for shareholders generally.

APPENDIX 3

EXPLANATORY NOTE ON RESOLUTION 14: CHANGES TO ARTICLE 141: INDEMNITIES

The Companies (Audit, Investigations and Community Enterprise) Act 2004 (the "Companies Audit Act") relaxes the prohibition contained in Section 310 of the Companies Act 1985 in respect of companies indemnifying their directors against certain liabilities. These amendments to the law on directors' indemnities came into force on 6 April 2005.

At present, under Section 310, provisions in the Articles of Association of a company or in any contract with a company are void (subject to certain limited exceptions) if they seek to exempt a director, the company secretary or its auditors from liability, or indemnify such an officer or auditor against any such liability, for negligence, default, breach of duty or breach of trust.

The changes made by the Companies Audit Act mean that the existing Section 310 prohibition will no longer apply to directors and other officers and will only apply to a company's auditors. NEXT's current Memorandum of Association gives it the power to grant indemnities and does not need to be amended to reflect any changes. In order to make the Articles of Association consistent with the new provisions of the Companies Act 1985, the Company proposes at resolution 14 that a new Article 141 replaces the existing Article 141. The new Article is a permissive power that allows the Company to indemnify its directors and former directors (and those of its associated companies) subject to those provisions.

Under the revised Article the Company would generally be able to grant indemnities and there would not be any limits on this power. However the Company must comply with the new provisions in the Companies Act 1985, namely that:

- no indemnity may be given to a director of another group company if the indemnity would be unlawful if given by the group company of which the individual is a director;
- in the case of liabilities arising from actions brought by third parties, both the costs (of the director and of the third party) and any damages may, subject to certain exclusions, be paid by the Company even if the judgement goes against the director;

Notice of Meeting

- in the case of liabilities owing to the Company, the Company will not be able to indemnify a director against damages awarded to the Company itself but may pay directors' defence costs as they are incurred (although a director would be liable to repay his defence costs if his defence was to be unsuccessful);
- the Company will not be permitted to indemnify directors against criminal fines, fines by regulators or the legal costs of successful criminal proceedings against directors;
- indemnities permitted by the new provisions must be disclosed in the Directors' Report in the annual accounts and made available for inspection at the Company's registered office.

The new Article 141 will require an indemnity in favour of a director to be dealt with by a contractual arrangement between the Company and the relevant director. The entry into of such an arrangement will be subject to review by the Board of Directors of the Company. The Board does not currently intend to make use of the ability to enter into such an arrangement.

A copy of the proposed amended Articles of Association that reflect the above change is available for inspection at the Company's registered office at Desford Road, Enderby, Leicester, LE19 4AT up until the date of the AGM and at the meeting itself.

Attendance and voting

All members who hold ordinary shares are entitled to attend and vote at the meeting. Members who are entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote instead of him, and a proxy need not also be a member. A proxy may vote on any other business which may properly come before the meeting. A form of proxy is enclosed. If you do not intend being present at the meeting please sign and return it so as to reach the Company's registrar at least 48 hours before the meeting. The return by a member of a fully completed form of proxy will not preclude any such member from attending in person and voting at the meeting.

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 1am on 17 May 2005 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time.

Changes to entries on the relevant register of securities after 1am on 17 May 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

This year, all special business resolutions will be put to poll votes. This means that the votes of all shareholders, including those who cannot attend the meeting but who submit a Proxy Form, are counted. The procedures for the poll votes will be explained at the AGM.

In respect of resolution 13 on contingent share purchase contracts, the Companies Act 1985 provides that this resolution will not be effective if any member of the Company holding shares to which it relates (i.e. those which may be purchased pursuant to the Programme Agreements) exercised the voting rights carried by any of those shares in voting on the special resolution and the resolution would not have been passed if he had not done so. Therefore, NEXT intends to disregard the poll votes which have been cast in favour of resolution 13 attaching to 6 million shares (being the total maximum number of shares which the Company is permitted to purchase pursuant to the Programme Agreements) from both the total number of votes cast in favour of this resolution and the total number of votes cast.

Electronic proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 18 May 2005 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Directors' service contracts

Copies of directors' contracts of service are available for inspection at the registered office of the Company during the usual business hours and will be available at the place of the Annual General Meeting for at least 15 minutes prior to and during the Meeting.



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