



# NEXT

annual report and accounts

january

# 2006

# NEXT PLC

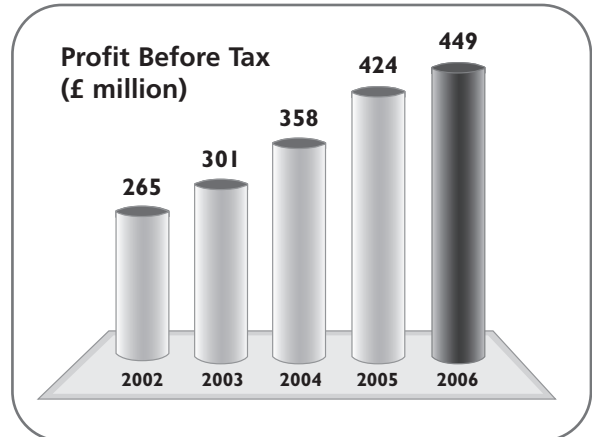
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## January 2006 Summary of Performance

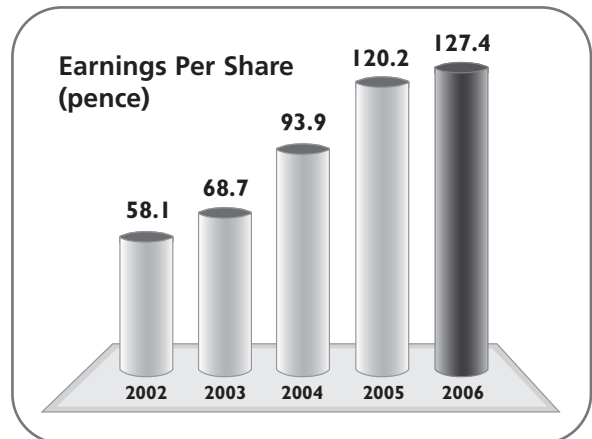
"I am pleased to report that NEXT has had another satisfactory year, despite a tough trading environment"

- Group turnover increased 9% to £3,106m
- Profit before tax increased 6% to £449m from £424m



"The development of our store portfolio and Directory customer base have been the main drivers of growth"

- Earnings per share increased by 6% to 127.4p
- Dividends for the year increased 7% to 44p from 41p

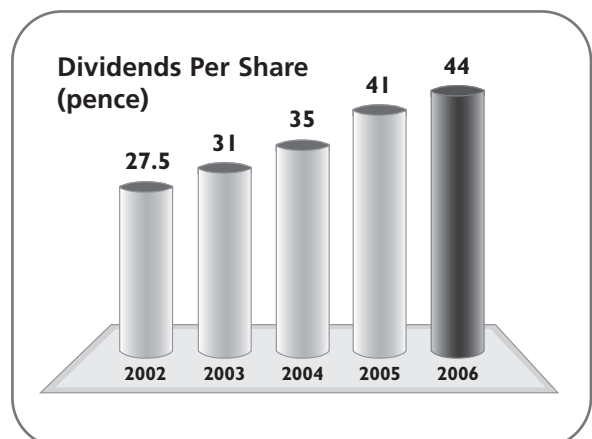


"Over the past five years we have returned £1.4 billion to shareholders through dividends and share buybacks"

- 15 million shares purchased for cancellation during the year at a cost of £218m

"Our infrastructure provides the platform from which we can continue to grow the business"

"We will continue to focus on offering style, quality and value for money to our customers"



## Chairman's Statement

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I am pleased to report that NEXT has had another satisfactory year, despite a tough trading environment throughout 2005. Profit before tax increased by 6% to £449m, on sales of £3.1 billion which were 9% ahead of last year.

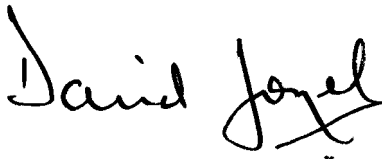
Over the past five years, there have been significant achievements by NEXT in many areas. Sales have almost doubled, accompanied by a doubling of profit and an even greater increase in earnings per share. During that time we have returned £1.4 billion to shareholders through dividends and share buybacks. We have also succeeded in delivering excellent levels of capital growth through a rising share price.

These financial results have been achieved through the continued focus on our products – offering style, quality and value for money to our customers. The development of our store portfolio to over 4 million square feet and our Directory customer base to over 2 million active customers have been the main drivers of growth. Our infrastructure, which supports these objectives, provides the platform from which we can continue to grow the business and deliver value to our customers and shareholders.

It has already been announced that I will retire from the Board at the AGM in May 2006. I have been at NEXT for 20 years and I will be sad to no longer be part of a great team, but I am a great believer in well planned and timely succession.

I will be succeeded as Chairman by John Barton. We appointed John as a non-executive director in 2002 and he was appointed Deputy Chairman in 2004. He has shown that he has all the qualities that are necessary in a good Chairman and I am confident that John and Simon will be a formidable partnership in promoting the continued success of NEXT.

I would like to thank our suppliers, many of whom have supported NEXT so well over my 20 years. I would particularly thank the three Chairmen that I worked with during my time as Chief Executive – Michael Stoddart, David Wolfson and Sir Brian Pitman. They all brought their own individual style and knowledge which helped me enormously. And finally, thank you to everyone who has worked with me at NEXT, it has been a great adventure.



**David Jones CBE**  
**Chairman**

**23 March 2006**

## Chief Executive's Review

### INTRODUCTION

NEXT has delivered solid growth in sales and profits in a challenging year. NEXT Brand sales increased by 9.1% against last year, while group profit before tax increased by 5.8% to £449m, at the top end of market expectations.

As a result of share buybacks the pre-tax earnings per share increased by more than profits and were 9.2% ahead of last year. An increase in the tax rate to 30.2% brought post-tax earnings per share growth back to 6.0%.

### PROFIT AND LOSS ACCOUNT

	Turnover excluding VAT		Profit & Earnings per share		
	2006 £m	2005 £m	2006 £m	2005 £m	
NEXT Retail	<b>2,216.8</b>	2,057.6	<b>319.9</b>	301.1	
NEXT Directory	<b>685.0</b>	602.6	<b>106.1</b>	89.5	
The NEXT Brand	<b>2,901.8</b>	2,660.2	<b>426.0</b>	390.6	<b>+9.1%</b>
NEXT Franchise	<b>39.2</b>	33.5	<b>7.9</b>	6.0	
NEXT Sourcing	<b>8.7</b>	20.2	<b>32.9</b>	32.8	
Ventura	<b>149.2</b>	131.8	<b>13.6</b>	13.4	
Other activities	<b>7.3</b>	12.8	<b>(3.7)</b>	3.6	
Share option charge	–	–	<b>(8.1)</b>	(3.9)	
Unrealised exchange gain	–	–	<b>2.1</b>	–	
Turnover & operating profit	<b>3,106.2</b>	2,858.5	<b>470.7</b>	442.5	<b>+6.4%</b>
Interest expense			<b>(21.6)</b>	(18.2)	
Profit before tax			<b>449.1</b>	424.3	<b>+5.8%</b>
Taxation			<b>(135.6)</b>	(118.9)	
Profit after tax			<b>313.5</b>	305.4	<b>+2.7%</b>
Earnings per share			<b>127.4p</b>	120.2p	<b>+6.0%</b>

### CHANGED TACTICS FOR TOUGHER TIMES

At the beginning of last year we said that we expected a challenging year. We have succeeded in mitigating the effects of a tough consumer environment by profitably growing our selling space, improving gross margins, controlling costs and managing stock levels. NEXT Directory delivered strong growth in both sales and profits.

## Chief Executive's Review

### NEXT RETAIL

Sales in NEXT Retail grew by 7.7%, with like-for-like sales in the 224 stores that were not planned to be affected by new openings down -2.9%. Despite negative like-for-like sales the operating profit was up 6.3% on last year. The analysis below explains how the operating margin has been defended and how the major costs varied as a percentage of sales.

#### Margin analysis

Increase in gross margin	+1.0%
Higher markdowns	-0.4%
Improvement in branch payroll	+0.1%
Increase in occupancy costs	-0.8%
Increase in central overheads	-0.1%
	-0.2%
Operating margin reduction	-0.2%

Gross margin (the difference between the cost of stock and the initial selling price) increased by 1% through improved sourcing and better control of airfreight, but without any compromise in either quality or value. In fact we also managed to reduce average selling prices by around 5%. Markdowns rose as a result of increased Sale activity in our clearance operation and slightly lower cash recovery rates in the end of season Summer Sale. Labour efficiency gains were made in the stores through improved stock processing methods and reduced levels of premium pay.

Occupancy costs rose as the effects of underlying increases in rates, energy costs and rents were exacerbated by negative like-for-like sales. Central overheads increased slightly, mainly as a result of the step change in warehouse fixed costs arising from the opening of two new warehouses and additional distribution costs.

#### New space

In the year we increased our net selling space by 980,000 square feet to 4,300,000 square feet. Despite difficult trading conditions we are forecasting that the sales performance of our portfolio of new stores will be in line with their appraised target, giving payback of the net capital invested in 18 months.

The table below shows how the profile of our stores and space has changed over the last three years:

Store Size (square feet)	Number of Stores			% of Selling Space		
	2006	2005	2004	2006	2005	2004
Less than 5,000	<b>133</b>	152	166	<b>9%</b>	14%	18%
5,000-10,000	<b>132</b>	112	99	<b>23%</b>	25%	26%
10,000-15,000	<b>99</b>	61	45	<b>28%</b>	22%	19%
15,000-20,000	<b>35</b>	29	25	<b>14%</b>	15%	15%
Greater than 20,000	<b>40</b>	30	23	<b>26%</b>	24%	22%
TOTAL	<b>439</b>	384	358			

#### New space in the year ahead

We currently expect to increase net selling space by around 450,000 square feet in the year ahead.

## Chief Executive's Review

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### Manchester store

In the Autumn we opened our largest store, trading from 82,000 square feet in the centre of Manchester. Sales to date are comfortably ahead of target and we expect to achieve payback of the net capital invested in 17 months.

### New shop fit concept

In May of this year we will be trialling a new shop fit concept. By August this will be in six new stores and two existing stores that are being converted to the new format. If the trial is successful we will then roll out elements of it into key stores.

### NEXT DIRECTORY

NEXT Directory had a good year with sales up 13.7% and profits up 18.5%. Sales continue to benefit from increased use of the Internet, whilst improved gross margins and tight control of costs moved profit ahead faster than sales. The margin analysis below explains how the major costs varied as a percentage of sales.

#### Margin analysis

Increase in gross margin	1.1%
Higher markdowns	-1.4%
Service charge/bad debt	-0.1%
Improvement in central overheads	1.0%
	<hr/>
Operating margin increase	0.6%

The improvement in gross margin was offset by the significant increase in markdown, which resulted from a planned reduction in the quantity of stock transferred from Directory to Retail for the end of season Sales. Therefore the quantity of stock in the Directory Sales was significantly higher than last year. Increased bad debt provisions were offset by increased service charge income.

Significant economies of scale were made over central overheads with Directory catalogue production, marketing and call centre costs all declining as a percentage of sales.

### Customer base

The number of active customers grew by 11% to 2.1 million as at January 2006.

### PRODUCT DEVELOPMENT

Fashion is moving faster and we have reorganised our buying cycle to deliver new product more often. New ranges will now be introduced into stores every six weeks. The effects of the new buying process will begin to be seen in April this year.

Going forward we need to be more focused in controlling the number of different styles in our ranges. We need fewer styles with more colour-ways of the better selling lines, which have been understocked from the start of this season. We expect to make further progress through the course of the year.

## Chief Executive's Review

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### **BUSINESS DEVELOPMENT**

This year we will be conducting a number of trials to extend and add to the NEXT brand. These products will, if successful, add to our business in the years ahead and provide new avenues of growth as our core product areas approach maturity.

In particular we will aim to leverage our two million Directory home shopping customer base. To this end we are trialling an electrical brochure (NEXTelectric) with 300,000 customers and if this is successful we can rapidly roll it out to the rest of the customer base in the Autumn.

NEXT Clearance has 30 stores and a turnover of £78m. We aim to develop this business through the introduction of a sub-brand which will consist of product bought specifically for these stores.

### **NEXT FRANCHISE**

Our overseas franchise operation continues to grow, with sales increasing by 17% and profit by 30% to £7.9m. At the year end there were 96 franchise stores compared with 80 the previous year. The Middle East continues to be our largest region with 41 stores. Our partner in Japan has 25 stores.

During the year franchise stores were opened in Gibraltar, Hungary and Turkey. We anticipate that at least 20 new franchise stores will be opened during the coming year, including several in Russia.

### **NEXT SOURCING (NSL)**

NSL has operations in mainland China, Hong Kong, Romania, Sri Lanka, Turkey, the UK and other locations which are engaged in the design, sourcing, buying, merchandising and quality control of NEXT products. In Sri Lanka NSL also owns garment manufacturing facilities which employ 2,000 people.

NSL is a profit centre and competes with other agents and factories. It charges commission on the product it sources and bears its own operating costs. The reported turnover is only the small amount of business it does with third parties; it excludes intercompany sales. Profits amounted to £32.9m compared with £32.8m last year.

### **VENTURA**

After a slow start to the year, Ventura had an excellent second half. Turnover increased by 13% to £149m. Business volumes remained high through to the end of the year and, as a result, profits of £13.6m were better than our expectations and slightly ahead of last year's £13.4m.

Several existing contracts were renewed during the year and three significant new customers have been added to the client list. Ventura employs in excess of 7,000 people and its UK call centres are operating close to full capacity. Its call centre in Pune, India opened during the year and handles business on behalf of NEXT Directory and two other clients.

### **OTHER ACTIVITIES**

The Other Activities charge was £3.7m. Other Activities include profits from our Property Management Division, Choice (an associated company which operates fourteen discount stores) and Cotton Traders (an associated company which sells its own brand products). Central Costs were £6.0m plus a further £5.9m in respect of additional defined benefit pension scheme funding.

The charge for the Group's pension schemes increased to £22m from £19m last year. During the year the Group made cash contributions of £30m into the schemes, which included £17m in respect of the past service deficit.



## Chief Executive's Review

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### SHARE OPTIONS

The £8.1m charge for the year compares with a restated £3.9m for the previous year. The increase is due to the phasing in of option grants as prescribed by the new accounting standard. We estimate that the charge will increase by approximately £1m in each of the next three years.

Over 10,000 of our employees hold options over 10.6 million shares in NEXT. Our employee share ownership trust ("ESOT") purchases shares in the market and issues them to employees when options are exercised. At the year end it held 8.2 million shares.

We are continuing with our policy of issuing options to our employees and management of the resulting exposure by purchasing and holding shares in the ESOT. We believe this is the best way to minimise the true cost of share options and avoids the dilution of shareholders' interests that would otherwise occur from the issue of new shares.

### SHARE BUYBACKS

During the year we purchased a further 15 million shares for cancellation at an average price of 1449p and a cash cost of £218m. This was 5.7% 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.

These buybacks were not made at the expense of investment in the NEXT Brand; we also spent a record amount on capital expenditure. The primary use of capital will continue to be the development of the core businesses.

### BALANCE SHEET AND CASH FLOW

Cash flow remains strong, after capital expenditure of £179m and before share buybacks we generated a cash inflow of £106m. The net cash outflow after share buybacks was £112m. Borrowings at the year end were £360m and are financed through a £300m 5.25% 10 year bond, which was issued in June 2003, and medium term bank facilities.

Capital expenditure included £124m on stores and £37m on warehousing. We expect this year's expenditure will be in the region of £125m. Year end stock levels at £324m were 7% up on last year and were consistent with our requirements. Debtors of £514m included the £385m account balances of our Directory customers, which continued to rise faster than Directory sales as more of these customers used their account to make purchases in NEXT Retail stores.

### DIVIDEND

The Directors recommend a final dividend of 30p against 28p last year, bringing the total for the year to 44p compared with 41p last year, an increase of 7.3%. The dividend is covered 2.9 times by earnings per share of 127.4p.

### CURRENT TRADING

The combined sales of NEXT Retail and NEXT Directory for the seven week period from 29 January to 18 March 2006 were up 5.6% compared to the same period last year.

NEXT Retail sales were up 3.9% in the period. Net sales growth from new space after deducting deflection was 12.8%. Like-for-like sales in the 246 stores that were unaffected by new openings were down -8.9%.

NEXT Directory sales were up 10.2% in the period.

These figures for the seven week period need to be treated with some caution. Last year included Mother's Day and some pre-Easter spending, whereas this year's do not. We estimate that NEXT Retail has been adversely affected by 1.5% or 2% due to these factors. We estimate that NEXT Directory has been affected by a similar amount as a result of the later distribution of our Summer brochure.

## Chief Executive's Review

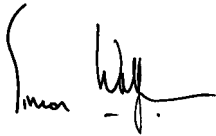
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### OUTLOOK

We believe the competitive and economic environment will remain very challenging in the year ahead. Whilst we think we have the opportunity to make improvements to some of our ranges, we are still budgeting on the basis of negative like-for-like retail sales for the year. We will focus on the following activities:

- Improving our core product offer, in particular simplifying some of our ranges to deliver better stock availability and clearer in-store merchandising
- Growing top line sales through the addition of profitable new space in NEXT Retail
- Adding more customers and product ranges to NEXT Directory
- Defending the bottom line through the continued management of costs and improving gross margin
- Developing new product areas

NEXT remains highly cash flow generative and we will continue with our policy of buying back shares when it is earnings enhancing and in the interests of shareholders generally.



**Simon Wolfson**

**23 March 2006**

## Directors and Officers

### CHAIRMAN OF THE BOARD

#### David Jones CBE

Aged 63

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. He is also a non-executive director of Wm. Morrison Supermarkets plc. 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.

### EXECUTIVE DIRECTORS

#### Simon Wolfson, Chief Executive

Aged 38

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 42

Joined the Group in 1986 and was appointed General Manager of NEXT'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 52

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 55

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 61

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 55

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 for BAT in Africa and the USA.

#### Christine Cross

Aged 54

Became a member of the Board in 2005. She is also a non-executive director of George Wimpey plc, Sobeys Inc (Canada), Fairmont Hotels (Canada) and retail advisor to Apax Partners. Previous experience includes fourteen years at Tesco plc and fifteen years lecturing and consulting at Edinburgh and Bath Universities.

#### Jonathan Dawson

Aged 54

Became a member of the Board in 2004. He is also a non-executive director of Galliford Try plc, National Australia Group Europe Ltd 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 61

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 28 January 2006.

### 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 income statement on page 29. The profit for the year attributable to equity holders of the Company was £313.5m. Turnover and operating profit of the Group are shown in greater detail in the analysis in Notes 1 and 2. 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 30p per share be paid on 3 July 2006 to shareholders on the register of members on 26 May 2006. The Trustee of the NEXT Employee Share Ownership Trust ("ESOT") has waived dividends paid in the year on shares held by the ESOT, see Note 29.

### 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 15,010,984 ordinary shares of 10p each for cancellation at a cost of £217.5m, representing 5.7% 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 2006 to renew the authority.

On 28 January 2006 the Company had 246,100,129 shares in issue. As at 21 March 2006, there had been no subsequent changes to the Company's 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 28 January 2006 were 25 days (2005: 27 days) based on the ratio of the 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 28 January 2006 or 29 January 2005.

### Treasury operations and financial instruments

NEXT operates a centralised treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the Group's activities. As part of its strategy for the management of these risks, the Group uses derivative financial instruments. In accordance with the Group's treasury policy, derivative instruments are not entered into for speculative purposes.

The Group's principal financial instruments, other than derivatives, are cash and short-term deposits, bank overdrafts, loans and corporate bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

#### *Liquidity risk*

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.

#### *Interest rate risk*

The Group is exposed to fair value interest rate risk on its fixed rate £300m corporate bond and cash flow interest rate risk on floating rate deposits, bank overdrafts and loans. The Group uses interest rate derivatives to manage the mix of fixed and variable rate debt so as to reduce its exposure to changes in interest rates and the economic environment.

## Directors' Report

### *Foreign currency risk*

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 18 months ahead in order to fix the cost in sterling. This hedging activity involves the use of spot, forward and option contracts.

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.

### *Credit risk*

Investments of cash surpluses, borrowings and derivative instruments are made through banks and companies which must fulfil credit rating and investment criteria approved by the Board.

All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts.

### **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 option scheme are available to all United Kingdom and Eire employees.

Full consideration is given to application 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 £350,000 (2005: £708,000). No donations were made for political purposes.

### **International Financial Reporting Standards**

The Group has prepared its financial statements under International Financial Reporting Standards ("IFRS") for the first time. Details of the impact of the transition are given on page 63.

### **Substantial shareholders**

As at 21 March 2006 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	%
Barclays plc	25,079,717	10.19
Fidelity Investments	16,803,593	6.83
Legal & General	8,167,754	3.32
Lloyds TSB Group	7,450,655	3.03

### **Directors**

The current Board is shown on page 9 of this report. Mr Angelides, Mr Barton and Mr Netherton will retire by rotation. All are eligible and willing to be reappointed. Mr Netherton has now been a member of the Board for nine years. The Board has formally considered his independence and concluded that through his conduct on the Board and his interests outside of the Group he continues to bring both independence and valuable experience to the Board. In accordance with corporate governance guidelines, Mr Netherton will be subject to annual re-election.

The interest of the directors who held office at 28 January 2006 and their families are shown in the Remuneration Report on page 27.

## 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 74 to 84.

### The NEXT 2006 Performance Share Plan

NEXT's current Long Term Incentive Plan ("LTIP") was adopted in 1997 and is due to expire in 2007. Against this background, NEXT's Remuneration Committee recently undertook a comprehensive review of the Company's incentive arrangements for executive directors and other senior employees. The review concluded that the current LTIP had provided commensurate rewards for participants who had contributed significantly to delivering above average total shareholder returns over the LTIP's life. In the seven performance periods completed to date, NEXT has performed in the upper half of the comparator peer group every year, including three times in the top quartile.

The Remuneration Committee believes it appropriate that the Company should have an LTIP, which offers market competitive awards and is aligned to current best practice. The directors consider that a replacement plan should be adopted this year, one year before expiry of the current LTIP, to incorporate changes in market practice. Accordingly, resolution 8 proposes the adoption of a broadly similar scheme to include 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.

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.

### Risk/Reward investment plan

The Remuneration Committee believes the Company must offer a competitive remuneration package. The Committee considers that NEXT offers competitive base salaries and annual bonus incentives compared to most publicly listed retailers and, subject to resolution 8 being approved, its LTIP arrangement will provide appropriate long term incentives. However, privately owned retailers offer their executives the opportunity for personal investment in the equity of those businesses and the prospect of a significant leveraged capital profit on their eventual sale or flotation, which publicly listed companies such as NEXT cannot.

In July 2005, shareholder approval was given to the adoption of a new risk/reward incentive plan (the "Plan"), and details of its implementation are included on page 22 of the Remuneration Report. The purpose of the Plan is to assist in retaining and rewarding NEXT's key executives who have been instrumental in consistently delivering above average total shareholder return. Over the five years to January 2006, the management team has achieved total shareholder return of 156%, including share price growth of 118%. During this period, earnings per share have increased by 172%, dividends have grown by 83% and £929 million has been returned to shareholders through NEXT's share buyback programme.

The retail sector remains very competitive and NEXT's staff are still frequently targeted by our rivals for recruitment. Accordingly, resolution 9 will be proposed to approve a further Plan for its directors and senior management, thereby enhancing the Company's ability to retain its key executives and attract new talent to the management team. The structure of the Plan would be the same as in 2005 and would cost the Company a maximum of £2 million to implement. The principal features of the Plan are summarised in Appendix 2 to the Notice of the Annual General Meeting.

### 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 pursuant to this authority in the period up to the date of the 2007 Annual General Meeting is limited to £8,000,000, being 33% of the total ordinary share capital in issue at 21 March 2006, none of which is held in treasury. The directors do not have any present intention of exercising this authority.

## Directors' Report

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 do not have any present intention of exercising this authority which will expire at the Annual General Meeting in 2007.

### 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 its ordinary shares of 10p each provided that:

- (a) the aggregate number of ordinary shares authorised to be purchased shall be the lesser of 36,000,000 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 15 months after the date on which the resolution is passed or at the conclusion of the next Annual General Meeting of the Company in 2007.

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. It is the Company's present intention to cancel any shares purchased under this authority.

### Contingent contracts and off-market share purchases

Following shareholder authority granted at the 2005 Annual General Meeting, the Company entered into nine contingent purchase contracts. As at 21 March 2006 a total of 2,150,000 ordinary shares had been bought back for cancellation under these contracts at a total cost of £30.6 million, representing a discount of £1.1 million (or 3.5%) compared to market prices prevailing when the relevant contract was entered into. All these contracts have terminated, on reaching a pre-determined share price level set under each contract, and the Company will make no further purchases of shares under these contracts.

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 discount to the market price prevailing at the date each contract is entered into.

The principal features of these contracts are set out in Appendix 3 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 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 for cancellation using such contracts if it would be earnings enhancing and in the best interests of shareholders generally.

## **Directors' Report**

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### **Change to Articles of Association**

Special resolution 14 proposes an increase in the Company's maximum borrowing powers limit in its Articles of Association from £1,000,000,000 to £1,500,000,000. The proposed increase is required to give the Company sufficient headroom to develop its business and accommodate share buybacks under the authorities described in resolutions 12 and 13 above.

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 Annual General Meeting and at the Meeting itself.

### **Recommendation**

Your Directors are of the opinion that all resolutions which are to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders and, accordingly, unanimously recommend that you vote in favour of the resolutions.

By order of the Board

**A J R McKinlay**  
**Secretary**

**23 March 2006**



## Corporate Governance

### 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.

### 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, Mr Netherton, Mr Brookes and Mrs Cross who each attended eight meetings, and Mr Jones who attended seven meetings. 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. The Committee 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. The Committee also reviews the effectiveness of the risk management process and significant risk issues are referred to the Board for consideration. Four meetings were held during the year and all were fully attended with the exception of one which Mr Netherton was unable to attend and one which Mr Brookes was unable to attend.

## Corporate Governance

### 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. Six meetings were held during the year and all were fully attended, with the exception of one meeting which Mrs Cross was unable to attend.

### Nomination Committee

The Committee consists of the Company 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. Three meetings were held during the year and all were fully attended, with the exception of one meeting which Mr Brookes was unable to attend.

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. It is intended that he will retire from the Board at this year's Annual General Meeting in May and be replaced by the current Deputy Chairman, who is an independent director.

The Chairman's and Deputy Chairman's other significant commitments are noted on page 9. The Board considers that these are not a constraint on their 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 meetings are the weekly NEXT Brand trading and capital expenditure meetings which consider the performance and development of the NEXT Brand through its different distribution channels. These meetings cover 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 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 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.

## Corporate Governance

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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**

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the position of the Company and the Group and the financial performance and cash flows of the Company and the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance; and
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors confirm that the financial statements 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 Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 financial statements.

## Corporate Responsibility Statement

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NEXT continues to consolidate and integrate Corporate Responsibility ("CR") commitments throughout the Group. A third party has again been commissioned to provide independent assurance on the content of the 2006 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.

The Group has established a CR forum of 15 senior managers and directors representing key areas of the business, co-ordinated by a CR Manager, to develop and implement the Group's strategy. 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. Home-working has been a particular area of focus in 2005 and will continue to be in 2006. The Group is working in partnership with groups in the UK and overseas to establish how ethical standards can be applied, implemented and monitored with home-workers.

The improvement of the Group's waste stream management has continued to be a priority during 2005. As a result, stores and warehouses recycled over 13,700 tonnes of cardboard (2005: 11,000 tonnes) and over 1,200 tonnes of polythene (2005: 700 tonnes). The Group will continue to strive for further improvements in this area in 2006.

The introduction of the Waste of Electrical and Electronic Equipment Directive was anticipated for 2005, but UK legislation has been delayed until 2007. The Group has successfully implemented changes in Eire following the implementation of the Directive there in August 2005. The Group has also begun to work with The Carbon Trust to review opportunities for energy efficiency in its stores, warehouses and offices throughout the business.

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.

Following the Indian Ocean tsunami in December 2004, the Group established a charitable trust to co-ordinate the distribution of over £790,000 of funds raised and donated by the Group and its directors, employees, associated companies and suppliers. The construction of a 200 home village with central social facilities is now well advanced, with the first batch of 46 completed houses due to be occupied in April 2006 and the remainder completed over the following few months.

All monies contributed in respect of the tsunami disaster were 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 report that the Company has complied with these regulations throughout the year under review.

## Information not subject to audit

### The Remuneration Committee

The Remuneration Committee determines the remuneration of the 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, a long term incentive plan based on total shareholder return and optional participation in a risk/reward investment plan.

### 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 100% 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 20% for the maximum bonus to be earned.

### Long term incentive plan

The long term incentive plan was approved by shareholders in 1997 and will expire in 2007. A new ten year plan will be put to shareholders at the 2006 Annual General Meeting. Invitations to participate are generally issued annually to executive directors and senior executives.

Under the current plan, 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 2006 was as follows:

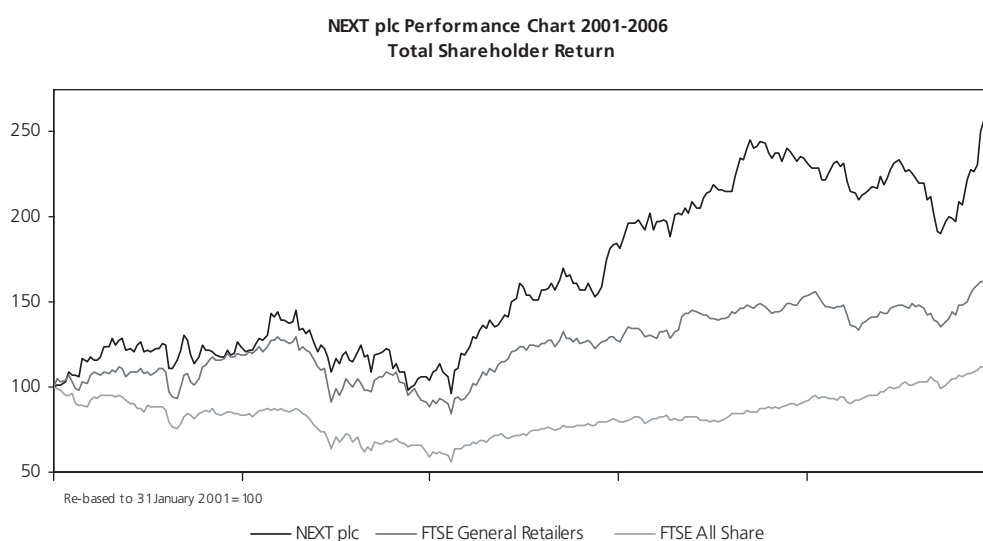
Body Shop	G.U.S.	Marks & Spencer	New Look
Boots	JB Sports	Matalan	Signet
Burberry	J Sainsbury	MFI Furniture	Tesco
DFS Furniture	Kingfisher	Mothercare	W H Smith
Dixons	Laura Ashley	N Brown	Woolworths
Findel			

## Remuneration Report

The Committee determines which companies are to be added to or removed from the comparator group. Laura Ashley, DFS Furniture and New Look have been removed for periods ending January 2007 onwards and have been replaced with Carpetright, Kesa and Wm Morrison Supermarkets.

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, bringing his maximum share award to an equivalent of 100% of salary for the performance periods commencing January 2004 and 2005. The additional 30% award is contingent on his remaining with the Group for a five year period to January 2009. Incremental awards made to three senior executives for the performance period commencing January 2004 were cancelled during the year and replaced by deferred bonuses linked to the Company's share price which are only payable in 2009 if they remain with the Group.

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.

## Remuneration Report

### Risk/Reward investment plan

In July 2005, a risk/reward investment plan was approved by shareholders in Extraordinary General Meeting. In accordance with the terms of the plan, and following approval by the Remuneration Committee, the Group made a special contribution to the NEXT 2003 Employee Share Ownership Trust (the "ESOT"). This contribution was applied by the ESOT to acquire listed warrants issued by Goldman Sachs Jersey Limited. These warrants are held on revocable trusts for those executives who made a personal investment from their own resources in a financial contract, the success of which is based on the market price of NEXT shares in July 2009.

The Group's contribution to fund investments made by the ESOT was limited to a maximum of three times the personal investment of each participant, subject to an upper limit on the Group's contribution of £200,000 per participant.

The returns on the warrants and the financial contracts are materially the same and will vary between a minimum of zero (if the final share price is then £20.50 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 £25.00. The final price will be determined by an averaging mechanism over the final three months to July 2009. On maturity of the warrants, any returns accruing to the trust will only be distributed (either in NEXT shares and/or cash) to those participants who have remained with NEXT.

Based on an average share price of £14.93 over the three months to July 2005, the Company's share price must increase at the equivalent of an annual compound growth rate of 8.3% 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 13.8%.

The financial contracts were entered into with an independent third party regulated by the FSA. No interest in the Company's securities is being acquired under these contracts by the directors or employees.

In addition, the Group also acquired 172,368 warrants direct from Goldman Sachs Jersey Limited in order to hedge its potential employers' national insurance contributions liability in respect of the plan.

In 2004 the Group paid special bonuses to certain directors and senior executives who invested their own resources in similar financial contracts on the understanding that the net amount would also be invested in those contracts. The success of the 2004 financial contracts was based on the market price of NEXT shares in July 2008.

Details of the amounts invested in the financial contracts by the executive directors and of the Group's related special contributions to the ESOT are given below.

£000	2006		2005	
	Investment from own resources	Special contribution to NEXT ESOT	Investment from own resources	Special bonus
S A Wolfson	100	–	500	–
C E Angelides	66	198	200	400
D W Keens	50	150	200	400
A J Varley	50	150	100	200
	<hr/>	<hr/>	<hr/>	<hr/>
	266	498	1,000	1,000
Senior employees	233	700	480	960
	<hr/>	<hr/>	<hr/>	<hr/>
	499	1,198	1,480	1,960
	<hr/>	<hr/>	<hr/>	<hr/>

### Management share options

The management share option plan was approved by shareholders in 2005 and will be due for renewal in 2015. The plan provides for options over shares, exercisable between three and ten years following their grant, to be allocated to Group employees (excluding main board directors and senior executives who participate in the long term incentive plan) at the discretion of the Board. Options



## Remuneration Report

can either be approved (where the beneficiary may qualify for tax relief) or unapproved. The total number of options which can be granted is subject to shareholder approved limits and there are no cash settlement alternatives.

Options are set at the prevailing market price at the time of grant. 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 three times salary, excluding bonuses and benefits in kind. This limit may be increased to five times salary in circumstances considered by the Remuneration Committee to be exceptional, for example on the grant of options following recruitment. 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. If this performance condition is not met within three years from the date of grant, the options lapse.

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 will be 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.

Sharesave options granted to directors in the year under review are detailed below.

### Group pension scheme

Executive directors are eligible for membership of the NEXT Group Pension Plan which has been approved by HM Revenue & Customs 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 and an independent director who is also the 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 statutory 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.

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

## Remuneration Report

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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 statutory 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 variable pay 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 was asked to consider that bonus be excluded from future defined benefit pensionable earnings and replaced with an optional AVC alternative, however it was not possible to introduce such a change at that time. A new proposal to remove bonus from pensionable earnings is currently being discussed with the Trustee.

Members contribute 3% or 5% of pensionable earnings, whilst the Company made contributions at the rate of 15.5% up to August 2005 and 17.5% thereafter. The most recent full actuarial valuation of the defined benefit section's financial position was undertaken as at 31 March 2005 and concluded that the scheme had a 12% deficit of assets compared to actuarial liabilities.

Members who joined the scheme after May 1989 and before October 2000 are subject to a statutory salary cap for approved pension schemes which is set at £105,600 per annum for 2005/2006. 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.

### **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 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 receive a discount when purchasing the Group's merchandise but do not participate in any of the Group's pension, bonus, share option or other incentive schemes.

# Remuneration Report

## Information subject to audit

Directors' remuneration £'000 2006	Salary/fee	Performance related bonus	Special bonus	Benefits	Total
<b>Chairman</b>					
D C Jones	250	–	–	27	277
<b>Executive directors</b>					
S A Wolfson	569	179	–	29	777
C E Angelides	431	130	–	2	563
D W Keens	388	122	–	25	535
A J Varley	290	91	–	29	410
<b>Non-executive directors</b>					
R J O Barton	60	–	–	–	60
N G Brookes	33	–	–	–	33
C Cross	33	–	–	–	33
J D S Dawson	33	–	–	–	33
D N D Netherton	41	–	–	–	41
<b>Total</b>	<b>2,128</b>	<b>522</b>	<b>–</b>	<b>112</b>	<b>2,762</b>

Directors' remuneration £'000 2005	Salary/fee	Performance related bonus	Special bonus	Benefits	Total
<i>Chairman</i>					
D C Jones	250	–	–	28	278
<i>Executive directors</i>					
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
<i>Non-executive directors</i>					
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
<b>Total</b>	<b>2,042</b>	<b>1,107</b>	<b>1,000</b>	<b>119</b>	<b>4,268</b>

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

## Remuneration Report

Mr Wolfson was the highest paid director in the current year (2005: Mr Angelides). Details of the 2005 special bonuses are as noted above.

In addition to the above, Mr Mitchell-Innes received advisory fees of £14,583 (2005: £13,125) subsequent to his resignation as a director of the Company, and was a director of NEXT Pension Trustees Limited until 30 June 2005, for which he received a fee of £6,250 (2005: £26,041). The Company also paid a pension under the unfunded, unapproved arrangement to a former director of the Company of £31,495 (2005: £31,155).

### Long term incentive plan

Estimated monetary values were included in the January 2005 Remuneration Report for the three year performance plan which matured at that date based on a share price of 1563p on 21 March 2005. Performance conditions of the plan are detailed above. Awards were made subsequent to the Report on 31 March 2005 when the share price was 1595p. 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 2006. The total shareholder return of the Company over this period ranked between third and fourth 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 2006 and, based on the share price of 1743p on 21 March 2006, awards to directors would be as follows:

	January 2006		January 2005	
	Actual no. of shares	Estimated value £000	Adjustment to estimate £000	Final value £000
S A Wolfson	40,732	710	11	548
C E Angelides	27,158	473	7	365
D W Keens	29,032	506	7	365
A J Varley	22,654	395	6	305
	<b>119,576</b>	<b>2,084</b>	<b>31</b>	<b>1,583</b>

The performance periods of the annual long term incentive plans which mature in January 2007 and 2008 respectively are not yet complete and no entitlement has yet been earned. A charge of £4,048,000 (2005: £4,803,000) has been made in the accounts in respect of the estimate of the amount for awards relating to the year, of which approximately £1,995,000 (2005: £2,193,000) 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 2006.

	No. of shares to January 2007	No. of shares to January 2008
S A Wolfson	32,906	24,297
C E Angelides	34,188	16,566
D W Keens	22,436	12,370
A J Varley	16,752	25,244
	<b>106,282</b>	<b>78,477</b>

The provisional maximum awards for the performance period to January 2008 were allocated during the year. There have been no other changes to awards under the long term incentive plan during the year.

## Remuneration Report

### 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 2006	Years of pensionable service	Accrued annual pension £'000	Increase in accrued annual pension £'000	Transfer value of accrued annual pension 2006 £'000	2005 £'000	Increase in transfer value less director's contributions £'000
S A Wolfson	38	11	161	26	1,222	851	355
C E Angelides	42	13	149	25	1,335	889	430
D W Keens	52	19	240	30	2,880	2,119	735
A J Varley	55	22	204	19	2,874	2,138	716

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 underlie 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 a statutory 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.

### 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			
	2006 No. of shares	2005 No. of shares	2006 No. of shares	2006 Average exercise price (p)	2005 No. of shares	2005 Average exercise price (p)
D C Jones	220,000	220,000	–	–	–	–
S A Wolfson	1,760,000	1,760,000	2,340	707	2,340	707
C E Angelides	80,108	77,001	–	–	3,107	543
R J O Barton	8,000	4,000	–	–	–	–
N G Brookes	5,000	2,500	–	–	–	–
C Cross	1,500	–	–	–	–	–
J D S Dawson	1,000	–	–	–	–	–
D W Keens	210,963	219,000	1,873	865	2,664	571
D N D Netherton	–	–	–	–	–	–
A J Varley	90,571	89,739	1,825	810	2,148	630

Share options expire at various dates up to April 2011. No director held any option with an exercise price above the market price of NEXT shares on 28 January 2006. Share options granted to or exercised by directors during the year were as follows:

## Remuneration Report

	No. of shares	Exercise price (p)	Market price (p)	Date of grant	Date of exercise
<b>Sharesave options</b>					
C E Angelides	3,107	543	1423	–	1 December 2005
D W Keens	1,690	543	1423	–	1 December 2005
	899	1,131	–	20 October 2005	–
A J Varley	832	543	1423	–	1 December 2005
	509	1,131	–	20 October 2005	–

The total value of options exercised, being the excess of market price over the exercise price on the dates of exercise, was £49,535 (2005: £286,250). Performance conditions for the exercise of options are detailed above. The market price of shares at 28 January 2006 was 1698p and the range during the year then ended was 1268p to 1734p.

The executive directors are also (together with other employees) discretionary beneficiaries under the ESOT and, as such, were each considered to be interested in the 8,185,173 shares owned by the ESOT at 28 January 2006. 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 2006. 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 2006

## Consolidated Income Statement

For the financial year ended 28 January	Notes	<b>2006</b> £m	2005 £m
<b>Revenue</b>	2	<b>3,106.2</b>	2,858.5
<b>Trading profit</b>	2	<b>468.9</b>	440.3
Share of results of associates	11	<b>1.8</b>	2.2
<b>Operating profit before interest</b>	3	<b>470.7</b>	442.5
Finance income	5	<b>1.1</b>	1.6
Finance costs	5	<b>(22.7)</b>	(19.8)
<b>Profit before taxation</b>		<b>449.1</b>	424.3
Taxation	6	<b>(135.6)</b>	(118.9)
<b>Profit attributable to equity holders of the parent company</b>		<b>313.5</b>	305.4
Earnings per share	8	<b>127.4p</b>	120.2p
Diluted earnings per share	8	<b>125.9p</b>	118.4p

## Consolidated Statement of Recognised Income and Expense

For the financial year ended 28 January	Notes	2006 £m	2005 £m
<i>Income and expenses recognised directly in equity</i>			
Exchange differences on translation of foreign operations		2.4	0.6
Gains on cash flow hedges		18.5	–
Actuarial losses on defined benefit pension schemes		(34.8)	(10.5)
Tax on items recognised directly in equity	6	10.4	3.2
		<u>(3.5)</u>	<u>(6.7)</u>
<i>Transfers</i>			
Transferred to income statement on cash flow hedges		(1.5)	–
Transferred to the carrying amount of hedged items on cash flow hedges		(8.6)	–
		<u>(13.6)</u>	<u>(6.7)</u>
Net expense recognised directly in equity		(13.6)	(6.7)
<b>Profit for the year</b>		<b>313.5</b>	305.4
		<u>313.5</u>	<u>305.4</u>
<b>Total recognised income and expense for the year</b>	27	<b>299.9</b>	298.7
		<u>299.9</u>	<u>298.7</u>
<i>Adoption of IAS32 and IAS 39 (page 68)</i>			
Net loss on cash flow hedges on first-time application of IAS 39		(8.2)	–
Net loss on fair value hedges on first-time application of IAS 39		(1.6)	–
Recognition of contingent share purchase contracts on first-time application of IAS 32		(36.4)	–
Deferred tax adjustment on first-time application of IAS 39		2.5	–
		<u>(43.7)</u>	<u>–</u>
Effects of changes in accounting policy	27	(43.7)	–
		<u>(43.7)</u>	<u>–</u>



## Consolidated Balance Sheet

As at 28 January	Notes	2006 £m	2005 £m
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant & equipment	9	514.1	424.0
Intangible assets	10	36.2	36.2
Interests in associates	11	1.8	1.5
Other investments	12	1.0	–
Other financial assets	15	1.4	–
Deferred tax assets	6	7.8	24.0
		<b>562.3</b>	485.7
<b>Current assets</b>			
Inventories	13	323.9	301.6
Trade and other receivables	14	513.8	437.4
Other financial assets	15	4.1	–
Cash and short term deposits	16	69.8	72.3
		<b>911.6</b>	811.3
<b>Total assets</b>		<b>1,473.9</b>	1,297.0
<b>Current liabilities</b>			
Bank overdrafts	17	(31.4)	(22.3)
Unsecured bank loans	17	(100.3)	–
Trade and other payables	19	(568.8)	(506.3)
Other financial liabilities	20	(1.8)	–
Current tax liability		(53.2)	(59.8)
		<b>(755.5)</b>	(588.4)
<b>Non-current liabilities</b>			
Corporate bond	21	(298.1)	(300.0)
Net retirement benefit obligation	23	(115.6)	(92.6)
Provisions	24	(10.0)	(10.0)
Other financial liabilities	20	(4.5)	–
Other liabilities	25	(34.0)	(29.5)
		<b>(462.2)</b>	(432.1)
<b>Total liabilities</b>		<b>(1,217.7)</b>	(1,020.5)
<b>Net assets</b>		<b>256.2</b>	276.5
<b>EQUITY</b>			
Share capital	26	24.6	26.1
Share premium account	27	0.7	0.6
Capital redemption reserve	27	5.3	3.8
ESOT reserve	27	(89.3)	(93.3)
Fair value reserve	27	2.8	–
Foreign currency translation	27	3.0	0.6
Other reserves	27	(1,441.7)	(1,439.5)
Retained earnings	27	1,750.8	1,778.2
<b>Total equity</b>		<b>256.2</b>	276.5

Approved by the Board on 23 March 2006

**S A Wolfson**                      Director  
**D W Keens**                        Director

## Consolidated Cash Flow Statement

For the financial year ended 28 January	Notes	2006 £m	2005 £m
<i>Cash flows from operating activities</i>			
Operating profit before interest		<b>470.7</b>	442.5
Depreciation		<b>81.2</b>	69.0
Profit on disposal of property, plant and equipment		<b>(0.2)</b>	(0.9)
Share option charge		<b>8.1</b>	3.9
Unrealised exchange gain		<b>(2.1)</b>	–
Share of profit of associate companies		<b>(0.3)</b>	0.5
Exchange movement		<b>1.6</b>	1.2
Increase in inventories		<b>(22.3)</b>	(33.0)
Increase in trade and other receivables		<b>(76.3)</b>	(57.7)
Increase in trade and other payables		<b>62.8</b>	84.6
Pension contributions less income statement charge		<b>(11.8)</b>	(3.1)
Cash generated from operations		<b>511.4</b>	507.0
Corporation taxes paid		<b>(113.2)</b>	(117.1)
<b>Net cash from operating activities</b>		<b>398.2</b>	389.9
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant and equipment		<b>8.4</b>	7.7
Acquisition of property, plant and equipment		<b>(177.2)</b>	(144.0)
Purchase of investment in associate company		–	(1.2)
Purchase of other investments		<b>(1.0)</b>	–
<b>Net cash from investing activities</b>		<b>(169.8)</b>	(137.5)
<i>Cash flows from financing activities</i>			
Proceeds from issue of share capital		<b>0.1</b>	–
Repurchase of own shares		<b>(217.5)</b>	(57.3)
Purchase of own shares by ESOT		<b>(14.9)</b>	(41.1)
Proceeds from disposal of shares by ESOT		<b>15.7</b>	16.0
Proceeds/(repayment) of unsecured bank loans		<b>100.3</b>	(60.0)
Interest paid		<b>(21.4)</b>	(20.4)
Interest received		<b>1.2</b>	1.4
Payment of finance lease liabilities		<b>(0.2)</b>	(0.2)
Dividends paid		<b>(103.7)</b>	(94.2)
<b>Net cash from financing activities</b>		<b>(240.4)</b>	(255.8)
Net decrease in cash and cash equivalents		<b>(12.0)</b>	(3.4)
Opening cash and cash equivalents		<b>50.0</b>	53.9
Effect of exchange rate fluctuations on cash held		<b>0.4</b>	(0.5)
<b>Closing cash and cash equivalents</b>	32	<b>38.4</b>	50.0

## Company Balance Sheet

As at 28 January	Notes	2006 £m	2005 £m
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	36	2,477.7	2,477.7
Other financial assets	37	1.2	–
Deferred tax asset		0.8	–
		<b>2,479.7</b>	<b>2,477.7</b>
<b>Current assets</b>			
Trade and other receivables	37	1.5	1.8
Current tax asset	37	4.8	4.7
Cash and short term deposits	37	0.8	0.7
		<b>7.1</b>	<b>7.2</b>
<b>Total assets</b>		<b>2,486.8</b>	<b>2,484.9</b>
<b>Current liabilities</b>			
Unsecured bank loans	17	(100.0)	–
Trade and other payables	38	(299.3)	(67.1)
		<b>(399.3)</b>	<b>(67.1)</b>
<b>Non-current liabilities</b>			
Corporate bond	21	(298.1)	(300.0)
Other financial liabilities	38	(4.5)	–
Other liabilities	38	(1.2)	–
		<b>(303.8)</b>	<b>(300.0)</b>
<b>Total liabilities</b>		<b>(703.1)</b>	<b>(367.1)</b>
<b>Net assets</b>		<b>1,783.7</b>	<b>2,117.8</b>
<b>EQUITY</b>			
Share capital	39	24.6	26.1
Share premium account	39	0.7	0.6
Capital redemption reserve	39	5.3	3.8
ESOT reserve	39	(89.3)	(93.3)
Other reserves	39	985.2	985.2
Retained earnings	40	857.2	1,195.4
<b>Total equity</b>	40	<b>1,783.7</b>	<b>2,117.8</b>

Approved by the Board on 23 March 2006

**S A Wolfson** Director  
**D W Keens** Director

## Company Statement of Recognised Income and Expense

For the financial year ended 28 January	Notes	2006 £m	2005 £m
<i>Income and expenses recognised directly in equity</i>			
Tax recognised directly in equity		0.5	–
Net income recognised directly in equity		0.5	–
<b>Loss for the year</b>		<b>(11.9)</b>	(11.1)
<b>Total recognised income and expense for the year</b>	40	<b>(11.4)</b>	(11.1)
<i>Adoption of IAS32 and IAS 39 (Note 40)</i>			
Net loss on fair value hedges on first-time application of IAS 39		(1.6)	–
Recognition of contingent share purchase contracts on first-time application of IAS 32		(36.4)	–
Effects of changes in accounting policy	40	(38.0)	–

## Company Cash Flow Statement

For the financial year ended 28 January	Notes	2006 £m	2005 £m
<i>Cash flows from operating activities</i>			
Operating loss before interest		(0.3)	(0.7)
Decrease in trade and other receivables		0.3	198.6
Increase/(decrease) in trade and other payables		231.1	(9.4)
		<hr/>	<hr/>
Cash generated from operations		231.1	188.5
Corporation taxes received		4.7	3.3
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>235.8</b>	191.8
<i>Cash flows from investing activities</i>			
Dividends received		0.1	0.1
		<hr/>	<hr/>
<b>Net cash from investing activities</b>		<b>0.1</b>	0.1
<i>Cash flows from financing activities</i>			
Proceeds from the issue of share capital		0.1	–
Repurchase of own shares		(217.5)	(57.3)
Purchase of own shares by ESOT		(14.9)	(41.1)
Proceeds from disposal of shares by ESOT		15.7	16.0
Interest paid		(20.8)	(15.7)
Interest received		5.3	0.9
Proceeds from unsecured bank loans		100.0	–
Dividends paid		(103.7)	(94.2)
		<hr/>	<hr/>
<b>Net cash from financing activities</b>		<b>(235.8)</b>	(191.4)
Net increase in cash and cash equivalents		0.1	0.5
Opening cash and cash equivalents		0.7	0.2
		<hr/>	<hr/>
<b>Closing cash and cash equivalents</b>	41	<b>0.8</b>	0.7

## Accounting Policies

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given on pages 63 to 68. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis except for certain financial instruments, pension assets and liabilities and share based payment liabilities which are measured at fair value. The principal accounting policies adopted are set out below.

The Group and Company financial statements are presented in sterling and all values are rounded to the nearest tenth of a million pounds except where otherwise indicated.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The results and net assets of associated undertakings are incorporated into these financial statements using the equity method of accounting.

### Goodwill

Goodwill arising on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the acquired entity's identifiable assets and liabilities at the date of acquisition.

Goodwill is not amortised, but is reviewed for impairment at least annually; any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

### Property, plant & equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value.

Depreciation is provided to write down the cost of fixed assets to their estimated residual values, based on current prices at the balance sheet date, 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 in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, subject to review for impairment.

## Accounting Policies

### Impairment

The carrying values of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows which are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of an asset is the higher of its fair value less costs to sell, and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Goodwill with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

### Inventories

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

### Trade and other receivables

Trade receivables are stated at original invoice amount plus any accrued service charge (in the case of Directory customer receivables) less an allowance for estimated irrecoverable amounts where there is objective evidence that the asset is impaired.

### Share based payments

The fair value of employee share options granted on or after 7 November 2002 is calculated using the Black-Scholes model. The resulting cost is charged in the income statement over the vesting period of the option, and is adjusted for the expected and actual number of options vesting.

For cash-settled share based payments, the fair value of the liability is determined at each balance sheet date and the charge recognised through the income statement over the period in which the related services are received by the Group.

### Taxation

Current tax liabilities are measured at the amount expected to be paid, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the rates of taxation that are expected to apply when the asset or liability is settled, and is not discounted.

Taxation is charged or credited directly to equity if it relates to items that are credited or charged to equity, otherwise it is recognised in the income statement.

### Cash and cash equivalents

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits, less bank overdrafts which are repayable on demand.

### Bank loans and overdrafts

Bank loans and overdrafts are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

## Accounting Policies

### Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided to customers outside of the Group, stated net of returns and value added and other sales taxes.

Sales of goods are recognised when goods are delivered and title has passed. Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate. Income from rendering of services is recognised when the services have been performed. Royalty income is recognised in line with sales reported by the Group's franchise partners.

### Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Company's functional and presentation currency. Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the rate ruling at the date of the transaction. 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 recognised in the income statement for the period.

Upon consolidation, the assets and liabilities of the Group's overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Overseas subsidiary undertakings' income and expense items are translated at the weighted average rate during the period. Differences on translation are recognised as a separate equity reserve. On disposal of an overseas subsidiary, the cumulative exchange differences for that subsidiary are recognised in the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

### Financial instruments

#### *Derivative financial instruments*

Derivative financial instruments ("derivatives") are used to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products, and changes in interest rates relating to the Group's debt. In accordance with its treasury policy, the Group does not enter into derivatives for speculative purposes.

Derivatives are stated at their fair value. The fair value of foreign currency derivative contracts is their quoted market value at the balance sheet date. Market values are calculated using mathematical models and are based on the duration of the derivative instrument together with quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date. The fair value of interest rate contracts is the estimated amount that the Group would receive or pay to terminate them at the balance sheet date, taking into account prevailing interest rates.

#### *Hedge accounting*

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. When the asset or liability for the hedged transaction is recognised in the balance sheet, the associated gain or loss on the hedging instrument previously recognised in equity is included in the carrying amount of the hedged asset or liability. Gains or losses realised on cash flow hedges are then recognised in the income statement in the same period as the hedged item.

The Group uses interest rate derivatives as fair value hedges of the interest rate risk associated with the Company's £300m corporate bond. The carrying amount of the bond is adjusted only for changes in fair value attributable to interest rate risk and this value adjustment is recognised in the income statement. Any gain or loss from restating the related interest rate derivatives at their market value is also recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the income statement.



## Accounting Policies

Changes in the fair value of derivatives which do not qualify for hedge accounting are recognised in the income statement as they arise.

### *Contingent purchase contracts*

The Group also makes use of contingent contracts for the purchase of its own shares. These derivative contracts are accounted for as equity transactions and the contracts are not stated at their market values. The present value of the obligation to purchase the shares is recognised in full at the inception of the contract, even when that obligation is conditional. Any subsequent reduction in the total obligation arising from the early termination of a contract is credited back to equity at the time of termination.

### **Shares held by ESOT**

The NEXT Employee Share Ownership Trust ("ESOT") provides for the issue of shares to Group employees, including share issues under share options. Shares in the Company held by the ESOT are included in the balance sheet at cost as a deduction from equity.

### **Employee benefits**

The Group operates a pension scheme which consists of defined benefit and defined contribution sections. The assets of the scheme are held in a separate trustee administered fund. The Group also provides other, unfunded, post-employment benefits to certain scheme members.

The cost of providing benefits under the defined benefit section and the unfunded arrangement are determined separately using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit section and unfunded liabilities as reduced by the fair value of defined benefit scheme assets.

Actuarial gains and losses are recognised in full in the period in which they occur. The Group has adopted the amendment to IAS 19 *Employee Benefits* and accordingly actuarial gains and losses are recognised directly in equity and are presented in the statement of recognised income and expense. Other income and expenses associated with the defined benefit section are recognised in the income statement.

The pension cost of the defined contribution section is charged as incurred.

### **Provisions**

A provision is recognised where the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

### **Leasing commitments**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating 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 income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to income on a straight line basis over the period of the lease.

Premiums payable, rent free periods and capital contributions receivable on entering an operating lease are released to income on a straight line basis over the lease term.

### **New accounting standards**

The Group has not adopted early the requirements of IFRS 7 *Financial instruments: Disclosures*, which will become mandatory with effect from 1 January 2007. The new disclosures will therefore be adopted in the Group's financial statements from the year ending January 2008.

## Notes to the Financial Statements

### 1. Segmental analysis

For management purposes the Group comprises a number of divisions, the activities of which are detailed in the Chief Executive's report. These divisions comprise the business segments which form the Group's primary format for segmental reporting. Secondary information is presented by geographical segment.

#### By business sector

	External revenue		Internal revenue		Total revenue		Operating profit	
	2006	2005	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	£m	£m	£m	£m
NEXT Retail	2,216.8	2,057.6	–	–	2,216.8	2,057.6	319.9	301.1
NEXT Directory	685.0	602.6	–	–	685.0	602.6	106.1	89.5
NEXT Brand	2,901.8	2,660.2	–	–	2,901.8	2,660.2	426.0	390.6
NEXT Sourcing	8.7	20.2	667.7	576.4	676.4	596.6	32.9	32.8
Ventura	149.2	131.8	4.9	5.1	154.1	136.9	13.6	13.4
Other	46.5	46.3	131.4	113.9	177.9	160.2	(1.8)	5.7
Eliminations	–	–	(804.0)	(695.4)	(804.0)	(695.4)	–	–
	<b>3,106.2</b>	<b>2,858.5</b>	<b>–</b>	<b>–</b>	<b>3,106.2</b>	<b>2,858.5</b>	<b>470.7</b>	<b>442.5</b>

Significant non-cash items in the Other segment operating profit include share option charges of £8.1m (2005: £3.9m) and unrealised foreign exchange gains of £2.1m (2005: £nil).

Transactions between business segments are made on an arm's length basis in a manner similar to those with third parties. Segment revenue, segment expense and segment operating profit include transactions between business segments; these transactions are eliminated on consolidation.

	Assets		Liabilities		Capital expenditure		Depreciation	
	2006	2005	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	£m	£m	£m	£m
NEXT Retail	2,904.8	2,839.3	3,027.2	2,903.5	164.2	133.8	73.7	63.3
NEXT Directory	1,121.1	894.1	672.7	665.4	1.0	1.0	1.1	1.1
NEXT Brand	4,025.9	3,733.4	3,699.9	3,568.9	165.2	134.8	74.8	64.4
NEXT Sourcing	206.1	170.4	61.2	65.5	3.0	2.9	1.7	1.4
Ventura	112.2	99.2	67.2	54.6	10.9	6.3	4.4	2.9
Other	7,272.4	6,576.2	2,333.2	1,433.4	0.1	0.2	0.3	0.3
Eliminations	(10,142.7)	(9,282.2)	(4,943.8)	(4,101.9)	–	–	–	–
	<b>1,473.9</b>	<b>1,297.0</b>	<b>1,217.7</b>	<b>1,020.5</b>	<b>179.2</b>	<b>144.2</b>	<b>81.2</b>	<b>69.0</b>

#### By geographical location

	External revenue		Assets		Capital expenditure	
	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	£m	£m
United Kingdom	2,974.2	2,761.2	1,384.8	1,198.3	155.5	132.5
Rest of Europe	101.8	68.6	31.3	19.4	16.0	8.3
Middle East	20.3	19.7	4.3	6.1	0.5	0.9
Asia	9.9	9.0	53.5	73.2	7.2	2.5
	<b>3,106.2</b>	<b>2,858.5</b>	<b>1,473.9</b>	<b>1,297.0</b>	<b>179.2</b>	<b>144.2</b>

## Notes to the Financial Statements

### 2. Revenue and trading profit

	<b>2006</b>	2005
	<b>£m</b>	£m
Sale of goods	<b>2,832.7</b>	2,617.1
Rendering of services	<b>260.2</b>	229.3
Rental income	<b>7.3</b>	8.0
Royalties	<b>6.0</b>	4.1
Revenue	<b>3,106.2</b>	2,858.5
Cost of sales	<b>(2,241.1)</b>	(2,059.6)
Distribution costs	<b>(232.2)</b>	(195.9)
Administrative expenses	<b>(158.0)</b>	(158.8)
Share option charge	<b>(8.1)</b>	(3.9)
Unrealised foreign exchange gains	<b>2.1</b>	–
Trading profit	<b>468.9</b>	440.3

Rendering of services includes £76.7m (2005: £65.3m) of service charge on Directory customer receivables.

### 3. Operating profit before interest

Group operating profit before interest is stated after charging/(crediting):

	<b>2006</b>	2005
	<b>£m</b>	£m
Depreciation on assets:		
Owned	<b>81.0</b>	68.7
Leased	<b>0.2</b>	0.3
Profit on disposal of property, plant & equipment	<b>(0.2)</b>	(0.9)
Operating lease rentals		
Minimum lease payments	<b>131.3</b>	115.2
Contingent rentals payable	<b>10.2</b>	11.9
Rent receivable	<b>(7.3)</b>	(8.0)
Net foreign exchange differences	<b>3.2</b>	(3.2)
Auditors' remuneration		
Audit services	<b>0.5</b>	0.3
Non-audit services	<b>0.1</b>	–
Cost of inventories recognised as an expense	<b>1,867.7</b>	1,696.3
Write down of inventories to net realisable value	<b>146.5</b>	133.2

## Notes to the Financial Statements

### 4. Staff costs

	2006	2005
	£m	£m
Wages and salaries	522.1	468.6
Social security costs	37.7	33.7
Other pension costs	18.7	18.6
	<u>578.5</u>	<u>520.9</u>
Share based payments expense		
Equity settled	8.1	3.9
Cash settled	5.5	5.1
	<u>592.1</u>	<u>529.9</u>

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

	2006	2005
	£m	£m
NEXT Brand	451.1	410.1
NEXT Sourcing	26.5	21.2
Ventura	99.4	84.0
Other activities	15.1	14.6
	<u>592.1</u>	<u>529.9</u>

	Average employees		Full time equivalents	
	2006	2005	2006	2005
	Number	Number	Number	Number
NEXT Brand	45,360	44,945	25,536	23,783
NEXT Sourcing	3,596	3,038	3,596	3,038
Ventura	8,447	6,567	7,821	5,728
Other activities	51	52	46	48
	<u>57,454</u>	<u>54,602</u>	<u>36,999</u>	<u>32,597</u>

## Notes to the Financial Statements

### 5. Finance income and costs

	2006	2005
	£m	£m
Interest on bank deposits	0.3	0.9
Other interest receivable	0.8	0.7
	<hr/>	<hr/>
Total finance income	<b>1.1</b>	1.6
	<hr/>	<hr/>
Interest on bank loans and overdrafts	0.3	3.2
Interest on other loans	21.3	16.5
Interest on obligations under finance leases	0.1	0.1
	<hr/>	<hr/>
	<b>21.7</b>	19.8
	<hr/>	<hr/>
Unrealised profit on interest rate swaps	(4.5)	–
Fair value adjustment to loan hedged by interest rate swaps	5.5	–
	<hr/>	<hr/>
Total finance costs	<b>22.7</b>	19.8

### 6. Taxation

	2006	2005
	£m	£m
Current tax:		
UK corporation tax on profits of the year	127.8	118.3
Adjustments in respect of previous years	(17.7)	(4.4)
	<hr/>	<hr/>
	<b>110.1</b>	113.9
Overseas tax	3.5	3.4
	<hr/>	<hr/>
Total current tax	<b>113.6</b>	117.3
Deferred tax:		
Origination and reversal of temporary differences	22.0	1.6
	<hr/>	<hr/>
Tax expense reported in the consolidated income statement	<b>135.6</b>	118.9

Adjustments in respect of previous years relate to release of provisions for items subsequently agreed with HM Revenue & Customs. The tax rate for the current year varied from the standard rate of corporation tax in the UK due to the following factors:

	2006	2005
	%	%
UK corporation tax rate	30.0	30.0
Expenses not deductible for taxation purposes	2.6	0.9
Overseas tax differentials	1.2	(1.1)
Tax over-provided in previous years	(3.7)	(0.6)
Other	0.1	(1.2)
	<hr/>	<hr/>
Effective total tax rate on profit before taxation	<b>30.2</b>	28.0

## Notes to the Financial Statements

### 6. Taxation (continued)

In addition to the amount charged to the income statement, tax movements recognised directly in equity were as follows:

	<b>2006</b>	2005
	<b>£m</b>	£m
Current tax:		
Share based payments	<b>(3.6)</b>	–
Retirement benefit obligation	<b>(3.5)</b>	–
Deferred tax:		
Share based payments	<b>1.6</b>	(1.5)
Retirement benefit obligation	<b>(6.9)</b>	(1.7)
Movements on derivative instruments	<b>2.0</b>	–
	<b>(10.4)</b>	(3.2)

#### *Deferred taxation*

	<b>2006</b>	2005
	<b>£m</b>	£m
Accelerated capital allowances	<b>33.1</b>	25.9
Revaluation of derivatives to fair value	<b>(0.1)</b>	–
Retirement benefit obligations	<b>(34.7)</b>	(27.9)
Share based payments	<b>(11.0)</b>	(10.1)
Unremitted earnings of overseas subsidiaries	<b>12.7</b>	–
Other temporary differences	<b>(7.8)</b>	(11.9)
	<b>(7.8)</b>	(24.0)

The movement in the year is as follows:

	<b>2006</b>	2005
	<b>£m</b>	£m
At January 2005	<b>(24.0)</b>	(22.4)
Adjustment on adoption of IAS 32 & 39	<b>(2.5)</b>	–
At January 2005 as restated	<b>(26.5)</b>	(22.4)
Charged to the income statement		
Accelerated capital allowances	<b>7.2</b>	5.4
Revaluation of derivatives to fair value	<b>0.4</b>	–
Share based payments	<b>(2.5)</b>	(1.2)
Retirement benefit obligations	<b>0.1</b>	(0.6)
Unremitted earnings of overseas subsidiaries	<b>12.7</b>	–
Other temporary differences	<b>4.1</b>	(2.0)
Recognised directly in equity	<b>(3.3)</b>	(3.2)
At January 2006	<b>(7.8)</b>	(24.0)

## Notes to the Financial Statements

### 6. Taxation (continued)

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

	<b>2006</b>	2005
	<b>£m</b>	£m
Property development trading losses	<b>1.2</b>	1.2
Capital losses	<b>29.3</b>	31.0
	<b>30.5</b>	32.2

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.

### 7. Dividends

	<b>2006</b>	2005
	<b>£m</b>	£m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 29 January 2005 of 28p (2004: 24p) per share	<b>70.8</b>	61.1
Interim dividend for the year ended 28 January 2006 of 14p (2005: 13p) per share	<b>33.6</b>	33.1
	<b>104.4</b>	94.2
Proposed final dividend for the year ended 28 January 2006 of 30p (2005: 28p) per share	<b>71.4</b>	70.8

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The Trustee of the ESOT has waived dividends paid in the year on shares held by the ESOT.

### 8. Earnings per share

The calculation of earnings per share is based on £313.5m (2005: £305.4m) being the profit for the year after taxation and 246.2m ordinary shares of 10p each (2005: 254.1m), being the weighted average number of shares in issue less the weighted average number of shares held by the ESOT during the year.

The calculation of diluted earnings per share is based on £313.5m (2005: £305.4m) being the profit for the year after taxation and 249.1m ordinary shares of 10p each (2005: 257.9m) 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 2.9m shares (2005: 3.8m).

As at 21 March 2006 798,679 employee share options had been exercised subsequent to the balance sheet date and had been satisfied by ordinary shares issued by the ESOT.

## Notes to the Financial Statements

### 9. Property, plant & equipment

	Freehold Property £m	Leasehold Property £m	Plant and Fittings £m	<b>Total £m</b>
<b>Cost</b>				
At January 2004	80.8	11.5	521.9	<b>614.2</b>
Exchange movement	–	–	(0.2)	<b>(0.2)</b>
Additions	0.1	–	144.1	<b>144.2</b>
Disposals	(4.6)	(0.9)	(23.2)	<b>(28.7)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2005	76.3	10.6	642.6	<b>729.5</b>
Exchange movement	–	–	0.4	<b>0.4</b>
Additions	–	–	179.2	<b>179.2</b>
Disposals	(5.0)	–	(20.1)	<b>(25.1)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At January 2006</b>	<b>71.3</b>	<b>10.6</b>	<b>802.1</b>	<b>884.0</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At January 2004	9.1	1.6	247.8	<b>258.5</b>
Exchange movement	–	–	(0.1)	<b>(0.1)</b>
Provided during the year	–	–	69.0	<b>69.0</b>
Disposals	(0.3)	(0.1)	(21.5)	<b>(21.9)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2005	8.8	1.5	295.2	<b>305.5</b>
Exchange movement	–	–	0.1	<b>0.1</b>
Provided during the year	–	–	81.2	<b>81.2</b>
Disposals	(0.6)	–	(16.3)	<b>(16.9)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At January 2006</b>	<b>8.2</b>	<b>1.5</b>	<b>360.2</b>	<b>369.9</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Carrying amount</b>				
<b>At January 2006</b>	<b>63.1</b>	<b>9.1</b>	<b>441.9</b>	<b>514.1</b>
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2005	67.5	9.1	347.4	424.0
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2004	71.7	9.9	274.1	355.7
	<hr/>	<hr/>	<hr/>	<hr/>

The carrying amount of plant and fittings above includes an amount of £2.6m (2005: £0.8m) in respect of assets held under finance lease contracts.

At 28 January 2006 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £22.5m (2005: £23.6m).



## Notes to the Financial Statements

### 10. Intangible assets: goodwill

	<b>2006</b>	2005
	<b>£m</b>	£m
<b>Cost</b>		
At January 2005 and January 2006	<b>42.2</b>	42.2
	<hr/>	<hr/>
<b>Carrying amount</b>		
At January 2005 and January 2006	<b>36.2</b>	36.2
	<hr/>	<hr/>

Goodwill relates entirely to NEXT Sourcing and is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 28 January 2006 was measured on the basis of value in use. As this exceeded carrying value, no impairment loss was recognised.

The key assumptions in the calculation are the future sourcing requirements of the Group and the ability of NEXT Sourcing to efficiently meet these requirements based on past experience. In assessing value in use, the most recent financial results and internal budgets for the next year were used and extrapolated for four further years with no subsequent growth assumed, and discounted at 5.25%.

In the year ended January 2006, NEXT Sourcing generated an operating profit before interest of £32.9m (2005: £32.8m).

### 11. Interests in associates

Aggregated amounts relating to associates:

	<b>2006</b>	2005
	<b>£m</b>	£m
Share of associates' revenues and profits:		
Revenue	<b>29.2</b>	28.2
Profit	<b>1.8</b>	2.2
Share of associates' net assets:		
Total assets	<b>8.1</b>	7.8
Total liabilities	<b>(6.3)</b>	(6.3)
	<hr/>	<hr/>
Carrying amount of investment	<b>1.8</b>	1.5
	<hr/>	<hr/>

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

	<b>Sales</b>		<b>Amounts receivable</b>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>£m</b>	£m	<b>£m</b>	£m
Choice Discount Stores Limited	<b>4.3</b>	4.3	<b>1.2</b>	1.6
Cotton Traders Limited	<b>4.1</b>	18.0	<b>0.2</b>	2.5
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>8.4</b>	22.3	<b>1.4</b>	4.1
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the Financial Statements

### 12. Other investments

	2006	2005
	£m	£m
Other investments available for sale	<b>1.0</b>	–

The investments included above are investments in unlisted equity securities which are carried at cost since they do not have a quoted price in an active market and their fair value cannot be reliably measured. The investments have no maturity or coupon rate.

### 13. Inventories

	2006	2005
	£m	£m
Raw materials and work in progress	<b>6.9</b>	6.9
Finished goods	<b>311.1</b>	288.8
	<b>318.0</b>	295.7
Property development stocks	<b>5.9</b>	5.9
	<b>323.9</b>	301.6

### 14. Trade and other receivables

	2006	2005
	£m	£m
Trade and customer debtors	<b>415.4</b>	349.0
Amounts due from associated undertakings	<b>1.4</b>	4.1
Other debtors	<b>12.2</b>	8.7
Prepayments	<b>84.8</b>	75.6
	<b>513.8</b>	437.4

Trade and customer debtors above include £1.5m (2005: £1.5m) falling due after more than one year. Directory customer receivables bear interest at a variable annual percentage rate of 26.49% (2005: 24.99%).

### 15. Other financial assets

	2006		2005	
	Current £m	Non-current £m	Current £m	Non-current £m
Foreign exchange contracts	<b>4.1</b>	–	–	–
Warrants	–	<b>1.4</b>	–	–
	<b>4.1</b>	<b>1.4</b>	–	–

Foreign exchange contracts comprise forward contracts and options which are used to hedge exchange risk arising from the Group's overseas purchases. The instruments purchased are denominated in US dollars and Euros. The warrants are listed instruments acquired as part of the 2005 risk/reward plan.

## Notes to the Financial Statements

### 16. Cash and short-term deposits

	<b>2006</b>	2005
	<b>£m</b>	£m
Cash at bank and in hand	<b>69.8</b>	67.3
Short-term deposits	–	5.0
	<b>69.8</b>	72.3

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the cash requirements of the Group, and earn interest at market short-term deposit rates.

### 17. Bank loans and overdrafts

	<b>2006</b>	2005
	<b>£m</b>	£m
Bank overdrafts and overnight borrowings	<b>31.4</b>	22.3
Unsecured bank loans	<b>100.3</b>	–
	<b>131.7</b>	22.3

Bank overdrafts and overnight borrowings are repayable on demand and bear interest at a margin over bank base rates. The unsecured bank loans fall due within one year of the balance sheet date and bear interest at a margin above LIBOR. The unsecured bank loans include £100.0m in the Company (2005: £nil) drawn under a medium term bank revolving credit facility committed until September 2009 (Note 18).

At 28 January 2006 the Group had given indemnities of £13.0m (2005: £11.0m) in favour of various surety companies in respect of bonds given by them to HM Revenue & Customs.

### 18. Committed borrowing facilities

The committed facilities available at 28 January 2006 in respect of which all conditions precedent have been met were as follows:

	<b>2006</b>	2005
	<b>£m</b>	£m
Expiring in more than two years, but not more than five years	<b>450.0</b>	300.0

£100.0m of this facility was drawn down at 28 January 2006 (2005: £nil).

### 19. Trade and other payables

	<b>2006</b>	2005
	<b>£m</b>	£m
Trade payables	<b>173.4</b>	156.7
Obligations under finance leases	<b>0.5</b>	0.2
Other taxation and social security	<b>61.8</b>	53.2
Share based payment liability	<b>4.9</b>	4.6
Other creditors and accruals	<b>328.2</b>	291.6
	<b>568.8</b>	506.3

Trade payables are not interest-bearing and are generally settled on 30 day terms. Other creditors and accruals are not interest-bearing.

## Notes to the Financial Statements

### 20. Other financial liabilities

	2006		2005	
	Current £m	Non-current £m	Current £m	Non-current £m
Foreign exchange contracts	1.8	–	–	–
Interest rate swaps	–	4.5	–	–
	<u>1.8</u>	<u>4.5</u>	<u>–</u>	<u>–</u>

Foreign exchange contracts comprise forward contracts and options which are used to hedge exchange risk arising from the Group's overseas purchases. The instruments purchased are denominated in US dollars and Euros. Interest rate swaps relate to the corporate bond, see Notes 21 and 31.

### 21. Corporate bond

	2006 £m	2005 £m
Corporate bond repayable 2013	<u>298.1</u>	<u>300.0</u>

The corporate bond has a face value of £300.0m and carries a fixed coupon of 5.25%. The Group uses interest rate derivatives to hedge the fair value interest rate risk associated with the bond (Note 31). The resulting effective interest rates payable on the bond are as follows:

Effective interest rate	Maturity/repricing	£m
LIBOR + 0.9%	September 2013	150.0
4.7%	September 2006	50.0
4.8%	September 2007	50.0
4.9%	September 2008	50.0
		<u>300.0</u>

### 22. Obligations under finance leases

	2006 £m	2005 £m
Future minimum payments due :		
Within one year	0.6	0.2
In two to five years	1.7	0.7
Over five years	0.6	–
	<u>2.9</u>	<u>0.9</u>
Less: finance charges allocated to future periods	(0.3)	(0.1)
Present value of minimum lease payments	<u>2.6</u>	<u>0.8</u>

## Notes to the Financial Statements

### 22. Obligations under finance leases (continued)

The present value of minimum lease payments is analysed as follows:

	<b>2006</b>	2005
	<b>£m</b>	£m
Within one year	<b>0.5</b>	0.2
In two to five years	<b>1.5</b>	0.6
Over five years	<b>0.6</b>	–
	<b>2.6</b>	0.8

The Group uses finance leases to acquire certain plant and machinery. Obligations under finance leases carry interest at an average effective rate of 3.8%.

### 23. Retirement benefit schemes

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. The Group also provides further, unfunded retirement benefits to scheme members whose benefits would otherwise be restricted by a statutory salary cap.

The components of the net benefit expense recognised in the consolidated income statement are as follows:

	<b>2006</b>			2005		
	<b>Funded</b>	<b>Unfunded</b>	<b>Total</b>	Funded	Unfunded	Total
	<b>£m</b>	<b>£m</b>	<b>£m</b>	£m	£m	£m
Current service cost	<b>14.5</b>	<b>0.7</b>	<b>15.2</b>	11.7	0.2	11.9
Interest cost on benefit obligation	<b>16.6</b>	<b>0.4</b>	<b>17.0</b>	15.4	0.3	15.7
Expected return on plan assets	<b>(16.0)</b>	–	<b>(16.0)</b>	(13.9)	–	(13.9)
Net benefit expense recognised in administration expenses	<b>15.1</b>	<b>1.1</b>	<b>16.2</b>	13.2	0.5	13.7
Actual return on plan assets	<b>53.6</b>	–	<b>53.6</b>	18.7	–	18.7

## Notes to the Financial Statements

### 23. Retirement benefit schemes (continued)

Changes in the present value of defined benefit pension obligations are analysed as follows:

	2006			2005		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening position	320.7	7.3	328.0	282.8	5.6	288.4
Current service cost	14.5	0.7	15.2	11.7	0.2	11.9
Interest cost	16.6	0.4	17.0	15.4	0.3	15.7
Employee contributions	3.1	–	3.1	3.4	–	3.4
Benefits paid	(7.1)	–	(7.1)	(6.7)	–	(6.7)
Actuarial losses	69.6	2.8	72.4	14.1	1.2	15.3
Closing retirement benefit obligation	<b>417.4</b>	<b>11.2</b>	<b>428.6</b>	320.7	7.3	328.0

Changes in the fair value of scheme assets were as follows:

	2006			2005		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening position	235.4	–	235.4	202.0	–	202.0
Employer contributions	28.0	–	28.0	18.0	–	18.0
Employee contributions	3.1	–	3.1	3.4	–	3.4
Benefits paid	(7.1)	–	(7.1)	(6.7)	–	(6.7)
Expected return on assets	16.0	–	16.0	13.9	–	13.9
Actuarial gains	37.6	–	37.6	4.8	–	4.8
	<b>313.0</b>	–	<b>313.0</b>	235.4	–	235.4

The fair value of scheme assets was as follows:

	2006			2005		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Equities	217.2	–	217.2	172.8	–	172.8
Bonds	80.1	–	80.1	49.6	–	49.6
Property	13.5	–	13.5	11.4	–	11.4
Other	2.2	–	2.2	1.6	–	1.6
	<b>313.0</b>	–	<b>313.0</b>	235.4	–	235.4
Benefit obligation	<b>(417.4)</b>	<b>(11.2)</b>	<b>(428.6)</b>	(320.7)	(7.3)	(328.0)
Net retirement benefit obligation	<b>(104.4)</b>	<b>(11.2)</b>	<b>(115.6)</b>	(85.3)	(7.3)	(92.6)

## Notes to the Financial Statements

### 23. Retirement benefit schemes (continued)

The most recent formal actuarial valuation of the defined benefit section was undertaken by an independent qualified actuary as at 31 March 2005 using the projected unit credit method. The principal actuarial assumptions used in determining the Group's net retirement benefit obligations at the balance sheet date were as follows:

	2006	2005
Discount rate	4.65%	5.25%
Salary increases	4.35%	4.25%
Inflation	2.85%	2.75%
Pension increases	2.85%	2.75%
Expected rate of return on assets		
Equities	6.70%	6.75%
Bonds	4.40%	5.00%
Property	6.45%	6.50%
Other	4.10%	4.25%
Average	6.08%	6.35%
Post-retirement mortality		
Current pensioners at age 70 – male	1.0%	2.1%
Current pensioners at age 70 – female	0.8%	1.5%
Future pensioners at age 70 – male	0.7%	1.6%
Future pensioners at age 70 – female	0.6%	1.2%

Expected rates of return on plan assets are based on consistent assumptions with the previous year, adjusted to reflect changes in market conditions since that date.

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. From April 2004 the Group increased employer contributions from 13.4% to 15.5% and increased them further to 17.5% with effect from 1 August 2005. Total employer contributions of £29.6m (2005: £19.4m) were made during the year, including £17.5m (2005: £7.5m) in respect of the deficit on the defined benefit section and contributions of £1.6m (2005: £1.4m) in respect of the defined contribution section. At the year end, outstanding contributions to the defined contribution section included in other creditors were £0.3m (2005: £0.2m).

History of experience gains and losses:	2006	2005
	£m	£m
Fair value of scheme assets	313.0	235.4
Present value of defined benefit obligation	(428.6)	(328.0)
Deficit in the scheme	<u>(115.6)</u>	<u>(92.6)</u>
Experience adjustments arising on scheme liabilities	9.6	5.7
Experience adjustments arising on scheme assets	37.6	4.8

Cumulative actuarial losses recognised in the statement of total recognised income and expense at January 2006 were £45.3m (2005: losses of £10.5m).

## Notes to the Financial Statements

### 24. Provisions

	Vacant property costs £m
At January 2005	10.0
Additional provision in the year	0.5
Utilisation of provision	(0.5)
	<hr/>
At January 2006	<b>10.0</b>
	<hr/>

Provision is maintained for the costs of the future rentals or estimated exit cost of leases of unoccupied property to which the Group is committed, over an average remaining lease term of nine years.

### 25. Other non-current liabilities

	2006 £m	2005 £m
Obligations under finance leases	2.1	0.6
Share based payment liability	5.8	4.2
Other creditors and accruals	26.1	24.7
	<hr/>	<hr/>
	<b>34.0</b>	29.5
	<hr/>	<hr/>

### 26. Share capital

	2006 '000	2005 '000	2006 £m	2005 £m
<b>Authorised</b>				
Ordinary shares of 10p each	400,500	400,500	40.1	40.1
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 10p each	246,100	261,103	24.6	26.1

During the year the Company purchased for cancellation 9,060,984 (2005: 3,517,421) of its own ordinary shares of 10p each in the open market at a cost of £126.9m (2005: £50.2m). The Company also purchased for cancellation 5,950,000 (2005: 450,000) of its own ordinary shares of 10p each under off-market contingent purchase contracts at a cost of £90.6m (2005: £7.1m).

At the year end the Company was not party to any off-market contingent purchase contracts for the purchase of its own shares.

On 30 April 2005 the company issued 8,031 ordinary shares of 10p each for cash consideration of £0.1m.



## Notes to the Financial Statements

### 27. Reconciliation of movements in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Fair value reserve £m	Foreign currency translation £m	Other reserves £m	Retained earnings £m	Total £m
<b>At January 2004</b>	26.5	0.6	3.4	(72.8)	–	–	(1,434.9)	1,627.7	150.5
Total recognised income and expense for the year	–	–	–	–	–	0.6	–	298.1	298.7
Shares purchased for cancellation	(0.4)	–	0.4	–	–	–	–	(57.3)	(57.3)
Shares purchased by ESOT	–	–	–	(41.1)	–	–	–	–	(41.1)
Shares issued by ESOT	–	–	–	20.6	–	–	–	(4.6)	16.0
Share option charge	–	–	–	–	–	–	–	3.9	3.9
Realised property profits	–	–	–	–	–	–	(4.6)	4.6	–
Equity dividends paid	–	–	–	–	–	–	–	(94.2)	(94.2)
<b>At January 2005</b>	26.1	0.6	3.8	(93.3)	–	0.6	(1,439.5)	1,778.2	276.5
Adoption of IAS 32 and 39	–	–	–	–	(5.6)	–	–	(38.1)	(43.7)
At January 2005 as restated	26.1	0.6	3.8	(93.3)	(5.6)	0.6	(1,439.5)	1,740.1	232.8
Total recognised income and expense for the year	–	–	–	–	8.4	2.4	–	289.1	299.9
Issue of shares	–	0.1	–	–	–	–	–	–	0.1
Shares purchased for cancellation	(1.5)	–	1.5	–	–	–	–	(181.1)	(181.1)
Shares purchased by ESOT	–	–	–	(14.9)	–	–	–	–	(14.9)
Shares issued by ESOT	–	–	–	18.9	–	–	–	(3.2)	15.7
Share option charge	–	–	–	–	–	–	–	8.1	8.1
Realised property profits	–	–	–	–	–	–	(2.2)	2.2	–
Equity dividends paid	–	–	–	–	–	–	–	(104.4)	(104.4)
<b>At January 2006</b>	<b>24.6</b>	<b>0.7</b>	<b>5.3</b>	<b>(89.3)</b>	<b>2.8</b>	<b>3.0</b>	<b>(1,441.7)</b>	<b>1,750.8</b>	<b>256.2</b>

Other reserves in the consolidated balance sheet represent the reserve created on reduction of share capital through the Scheme of Arrangement under Section 245 of the Companies Act 1985 (£1,460.7m) less share premium account (£3.8m) and capital redemption reserve (£8.7m) at the time of the capital reconstruction in 2002 plus the accumulated amount of goodwill arising on acquisition after taking into account subsequent disposals (£0.7m) less the unrealised component of revaluations of properties arising under previous accounting standards (£7.2m; 2005 £9.4m).

## Notes to the Financial Statements

### 28. Equity settled share based payments

The Remuneration Report on pages 20 to 28 contains details of management and sharesave options offered to employees of the Group.

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

	2006		2005	
	Options (No.)	Weighted average exercise price (p)	Options (No.)	Weighted average exercise price (p)
Outstanding at beginning of period	9,734,045	997	9,315,338	807
Granted during the period	3,293,498	1,380	3,180,882	1,367
Forfeited during the period	(691,508)	1,124	(637,043)	903
Exercised during the period	(1,769,192)	886	(2,125,132)	750
Outstanding at the end of the period	<b>10,566,843</b>	<b>1,128</b>	<b>9,734,045</b>	997
Exercisable at the end of the period	<b>1,073,539</b>	<b>863</b>	1,105,058	709

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was 1563p (2005: 1496p). Options outstanding at 28 January 2006 are exercisable at prices ranging between 358p and 1495p (2005: 340p – 1412p), and have a weighted average remaining contractual life of 5.8 years (2005: 5.8 years), further analysed in the table below.

	2006		2005	
	No. of options outstanding	Weighted average remaining contractual life (years)	No. of options outstanding	Weighted average remaining contractual life (years)
Exercise price range				
340p – 543p	296,884	2.6	715,568	2.7
620p – 727p	1,395,616	1.4	1,656,909	2.5
889p – 920p	2,499,178	5.7	2,829,176	6.5
1058p – 1131p	1,467,961	4.6	1,456,000	3.7
1302p – 1347p	953,204	3.0	1,289,892	1.8
1412p – 1495p	3,954,000	8.8	1,786,500	5.8
	<b>10,566,843</b>	<b>5.8</b>	<b>9,734,045</b>	5.8

## Notes to the Financial Statements

### 28. Equity settled share based payments (continued)

The fair value of management and sharesave options granted is calculated at the date of grant using a Black-Scholes option pricing model. The following table lists the inputs to the model used for options granted in the years ended 29 January 2005 and 28 January 2006 based on information at the date of grant:

<b>Management share options</b>	<b>2006</b>	<b>2005</b>
Weighted average share price at date of grant (p)	<b>1494</b>	1412
Weighted average exercise price (p)	<b>1494</b>	1412
Volatility (%)	<b>26.99</b>	29.00
Expected life (years)	<b>4.00</b>	4.00
Risk free rate (%)	<b>4.31</b>	4.80
Dividend yield (%)	<b>2.48</b>	2.27
Weighted average fair value (p)	<b>3.28</b>	3.46
<b>Sharesave plans</b>	<b>2006</b>	<b>2005</b>
Weighted average share price at date of grant (p)	<b>1295</b>	1672
Weighted average exercise price (p)	<b>1131</b>	1302
Volatility (%)	<b>24.01</b>	28.49
Expected life (years)	<b>3.60</b>	3.64
Risk free rate (%)	<b>4.39</b>	4.52
Dividend yield (%)	<b>3.17</b>	2.09
Weighted average fair value (p)	<b>2.99</b>	5.57

Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equivalent to the expected life of the option. The expected life applied in the model is based on historical analyses of exercise patterns, taking into account any early exercises.

### 29. Shares held by ESOT

The NEXT 2003 Employee Share Ownership Trust ("ESOT") has an independent professional trustee resident in Jersey and provides for the issue of shares to Group employees, including share issues under share options, at the discretion of the Trustee.

At 28 January 2006 the ESOT held 8,185,173 (2005: 8,954,863) ordinary shares of 10p each in the Company, the market value of which amounted to £139.0m (2005: £142.6m). Details of outstanding share options are shown in Note 28.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOT at 28 January 2006 has been shown as an ESOT reserve and presented within equity for the Company and the Group. All other assets, liabilities, income and costs of the ESOT have been incorporated into the accounts of the Company and the Group.

## Notes to the Financial Statements

### 30. Financial instruments: fair values

The fair values of each category of the Group's financial instruments and their carrying values in the Group's balance sheet, excluding short term debtors and creditors, are as follows:

	2006		2005	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Financial assets</i>				
Cash and short term deposits	69.8	69.8	72.3	72.3
Warrants	1.4	1.4	–	–
Foreign currency contracts	4.1	4.1	–	2.4
<i>Financial liabilities</i>				
Bank overdrafts	(31.4)	(31.4)	(22.3)	(22.3)
Unsecured bank loans	(100.3)	(100.3)	–	–
Provisions	(10.0)	(10.0)	(10.0)	(10.0)
Other non-current liabilities	(34.0)	(34.0)	(29.5)	(29.5)
Interest rate swaps	(4.5)	(4.5)	–	(9.1)
Foreign currency contracts	(1.8)	(1.8)	–	(10.6)
Corporate bond	(298.1)	(298.1)	(300.0)	(300.0)

The fair values of derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates, and are based on market prices at the balance sheet date.

The total notional amount of outstanding foreign currency contracts to which the Group was committed at the balance sheet date is as follows:

	2006 £m	2005 £m
Notional amount of outstanding foreign currency contracts	475.9	525.0

### 31. Financial instruments: hedging activities

#### *Cash flow hedges*

The Group uses derivative instruments in order to manage foreign currency exchange risk arising on expected future purchases of overseas sourced products during the next twelve months. These derivatives comprise forward currency contracts and currency options, the terms of which have been negotiated to match the terms of the expected purchases. Fair values of derivatives which qualify for hedge accounting under IAS 39 are as follows:

	2006 £m
Fair value of hedging instruments	2.8

#### *Fair value hedges*

At 28 January 2006, the Group had interest rate swap agreements in place as fair value hedges of the interest rate risk associated with the Company's £300m 5.25% fixed rate corporate bond. Under the terms of the swaps, which have the same critical terms as the bond, the Group receives a fixed rate of interest of 5.25% and pays a combination of a variable rate and a lower fixed rate. Details of the effective rates payable are given in Note 21. The fair values of the interest rate swaps which are designated and effective as hedges under IAS 39 are as follows:

	2006 £m
Fair value of interest rate swaps	(4.5)

## Notes to the Financial Statements

### 32. Analysis of net debt

	January 2005 £m	Cash flow £m	Other non-cash changes £m	January 2006 £m
Cash and short term deposits	72.3			<b>69.8</b>
Overdrafts	(22.3)			<b>(31.4)</b>
	<hr/>			<hr/>
Cash and cash equivalents	50.0	(12.0)	0.4	<b>38.4</b>
Unsecured bank loans	–	(100.3)	–	<b>(100.3)</b>
Corporate bond	(300.0)	–	1.9	<b>(298.1)</b>
Finance leases	(0.8)	0.2	(2.0)	<b>(2.6)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(250.8)	(112.1)	0.3	<b>(362.6)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
	January 2004 £m	Cash flow £m	Other non-cash changes £m	January 2005 £m
Cash and short term deposits	62.3			72.3
Overdrafts	(8.4)			(22.3)
	<hr/>			<hr/>
Cash and cash equivalents	53.9	(3.4)	(0.5)	50.0
Unsecured bank loans	(60.0)	60.0	–	–
Corporate bond	(300.0)	–	–	(300.0)
Finance leases	(0.8)	0.2	(0.2)	(0.8)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(306.9)	56.8	(0.7)	(250.8)
	<hr/>	<hr/>	<hr/>	<hr/>

### 33. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases where the Group is the lessee:

	2006 £m	2005 £m
Within one year	<b>150.6</b>	129.8
After one year but not more than five years	<b>611.5</b>	514.1
More than five years	<b>1,152.6</b>	933.2
	<hr/>	<hr/>
	<b>1,914.7</b>	1,577.1
	<hr/>	<hr/>

At the balance sheet date, total future payments expected to be received under non-cancellable sub-leases were £43.1m (2005: £48.4m).

The Group has entered into operating leases in respect of vehicles, equipment, warehouses, office equipment and retail stores. These non-cancellable leases have remaining terms of between 3 months and 24 years. Contingent rentals are payable on certain retail store leases based on store revenues.

## Notes to the Financial Statements

### 34. Company accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies adopted are the same as those of the Group's consolidated financial statements except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

### 35. Profit 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 financial statements. The loss on ordinary activities after taxation dealt with in the accounts of the holding company was £11.9m (2005: £11.1m)

### 36. Investments in subsidiaries

Details of the Company's subsidiaries are given in Group Companies on page 69.

### 37. Current and non-current assets

At the balance sheet date, trade and other receivables comprise £1.5m (2005: £1.8m) of other debtors and £4.8m (2005: £4.7m) of current tax receivables.

Cash and short term deposits comprise cash at bank and in hand and deposits with a maturity of three months or less.

The carrying amount of these assets approximates to their fair value.

Other financial assets comprise listed warrants in the Company's own shares acquired as part of the 2005 risk/reward plan, which are carried at their fair value.

### 38. Current and non-current liabilities

Trade and other payables comprise £292.9m (2005: £61.0m) of amounts due to subsidiary undertakings and £6.4m (2005: £6.1m) of other creditors and accruals. The carrying amount of these liabilities approximates to their fair value.

Other financial liabilities comprise interest rate derivative instruments carried at fair value; see Notes 21 and 31. Other non-current liabilities relate to share based payment liabilities.

Details of the unsecured bank loans are given in Note 17.

### 39. Movements on reserves

The movements on share capital, share premium account, capital redemption reserve and ESOT reserve are disclosed in Note 27 to the consolidated financial statements.

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. Other reserves totalled £985.2m at 1 February 2004, 29 January 2005 and 28 January 2006.

## Notes to the Financial Statements

### 40. Reconciliation of movements in equity

	Retained earnings £m	Total equity £m
<b>At January 2004</b>	1,362.6	2,305.5
Total recognised income and expense for the year	(11.1)	(11.1)
Shares purchased for cancellation	(57.3)	(57.3)
Shares purchased by ESOT	–	(41.1)
Shares issued by ESOT	(4.6)	16.0
Equity dividends paid	(94.2)	(94.2)
	<hr/>	<hr/>
<b>At January 2005</b>	1,195.4	2,117.8
Adoption of IAS 32 & 39	(38.0)	(38.0)
	<hr/>	<hr/>
At January 2005 as restated	1,157.4	2,079.8
Total recognised income and expense for the year	(11.4)	(11.4)
Shares purchased for cancellation	(181.1)	(181.1)
Shares purchased by ESOT	–	(14.9)
Shares issued by ESOT	(3.3)	15.7
Equity dividends paid	(104.4)	(104.4)
	<hr/>	<hr/>
<b>At January 2006</b>	<b>857.2</b>	<b>1,783.7</b>

### 41. Analysis of net debt

	January 2005 £m	Cash flow £m	Other non-cash changes £m	<b>January 2006 £m</b>
Cash and cash equivalents	0.7	0.1	–	<b>0.8</b>
Unsecured bank loans	–	(100.0)	–	<b>(100.0)</b>
Corporate bond	(300.0)	–	1.9	<b>(298.1)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(299.3)	(99.9)	1.9	<b>(397.3)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
	January 2004 £m	Cash flow £m	Other non-cash changes £m	January 2005 £m
Cash and cash equivalents	0.2	0.5	–	0.7
Unsecured bank loans	–	–	–	–
Corporate bond	(300.0)	–	–	(300.0)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(299.8)	0.5	–	(299.3)

## Notes to the Financial Statements

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### 42. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties as follows:

	<b>2006</b>	2005
	<b>£m</b>	£m
Transactions with subsidiary undertakings:		
Recharge of costs	<b>(338.4)</b>	(162.5)
Funds advanced/(borrowed)	<b>100.8</b>	(25.5)
Dividends received	<b>0.1</b>	0.1
Interest receivable	<b>5.7</b>	–
Amounts due to subsidiary undertakings	<b>(292.9)</b>	(61.0)



## First Time Adoption of IFRS

The year ending 28 January 2006 is the first year that the Group has presented its consolidated financial statements under International Financial Reporting Standards ("IFRS"). The last financial statements under UK GAAP were for the year ended 29 January 2005; the Group's date of transition to IFRS was therefore 1 February 2004. The disclosures required in the year of transition are given below.

The adoption of IFRS represents an accounting change only and does not affect the operations or cash flows of the Group. At transition, the only impact on the Company relates to the recognition of dividends under IAS 10.

### Reconciliation of equity at 1 February 2004 (date of transition to IFRS)

	UK GAAP £m	Leases IAS 17 £m	Share Based Payment IFRS 2 £m	Employee Benefits IAS 19 £m	Other † £m	Effect of transition to IFRS £m	Restated under IFRS £m
<b>ASSETS AND LIABILITIES</b>							
<b>Non-current assets</b>							
Property, plant & equipment	355.7	–	–	–	–	–	355.7
Intangible assets	36.2	–	–	–	–	–	36.2
Interests in associates	1.0	–	–	–	–	–	1.0
Deferred tax assets	–	3.3	1.0	20.4	(2.3) d	22.4	22.4
	392.9						415.3
<b>Current assets</b>							
Inventories	269.4	–	–	–	(0.8) e	(0.8)	268.6
Trade and other receivables	378.5	1.1	–	–	–	1.1	379.6
Cash and short term deposits	62.3	–	–	–	–	–	62.3
	710.2						710.5
<b>Total assets</b>	<b>1,103.1</b>						<b>1,125.8</b>
<b>Current liabilities</b>							
Bank overdrafts	(8.4)	–	–	–	–	–	(8.4)
Unsecured bank loans	(60.0)	–	–	–	–	–	(60.0)
Trade and other payables	(448.3)	(29.9)	–	(2.7)	62.0 b	29.4	(418.9)
Current tax liability	(59.9)	–	–	–	–	–	(59.9)
	(576.6)						(547.2)
<b>Non-current liabilities</b>							
Corporate bond	(300.0)	–	–	–	–	–	(300.0)
Deferred tax liabilities	(8.7)	–	–	–	8.7 d	8.7	–
Net retirement benefit obligation	(21.0)	–	–	(65.4)	–	(65.4)	(86.4)
Provisions	(10.0)	–	–	–	–	–	(10.0)
Other liabilities	(31.7)	–	–	–	–	–	(31.7)
	(371.4)						(428.1)
<b>Total liabilities</b>	<b>(948.0)</b>						<b>(975.3)</b>
<b>Net assets</b>	<b>155.1</b>	<b>(25.5)</b>	<b>1.0</b>	<b>(47.7)</b>	<b>67.6</b>	<b>(4.6)</b>	<b>150.5</b>
<b>EQUITY</b>							
Share capital	26.5	–	–	–	–	–	26.5
Share premium account	0.6	–	–	–	–	–	0.6
Capital redemption reserve	3.4	–	–	–	–	–	3.4
ESOT reserve	(72.8)	–	–	–	–	–	(72.8)
Revaluation reserve	14.0	–	–	–	(14.0) g	(14.0)	–
Foreign currency translation	–	–	–	–	–	–	–
Other reserves	(1,448.9)	–	–	–	14.0 g	14.0	(1,434.9)
Retained earnings	1,632.3	(25.5)	1.0	(47.7)	67.6	(4.6)	1,627.7
<b>Total equity</b>	<b>155.1</b>	<b>(25.5)</b>	<b>1.0</b>	<b>(47.7)</b>	<b>67.6</b>	<b>(4.6)</b>	<b>150.5</b>

†: Notes refer to Other adjustments below

## First Time Adoption of IFRS

### Reconciliation of profit for the year ended 29 January 2005

	UK GAAP £m	Leases IAS 17 £m	Share Based Payment IFRS 2 £m	Employee Benefits IAS 19 £m	Other † £m	Effect of transition to IFRS £m	Restated under IFRS £m
<b>Revenue</b>	<u>2,858.5</u>	–	–	–	–	–	<u>2,858.5</u>
Trading profit	438.9	(6.2)	(2.5)	3.1	7.0 a,c,e	1.4	440.3
Share of results of associates	2.2	–	–	–	–	–	2.2
Operating profit before interest	441.1	–	–	–	–	–	442.5
Finance costs	(18.2)	–	–	–	–	–	(18.2)
Profit before tax	422.9	1.3	1.2	0.5	–	3.0	424.3
Tax	(121.9)	–	–	–	–	–	(118.9)
<b>Profit for the period</b>	<u>301.0</u>	<u>(4.9)</u>	<u>(1.3)</u>	<u>3.6</u>	<u>7.0</u>	<u>4.4</u>	<u>305.4</u>
Earnings per share	118.5p						120.2p
Diluted earnings per share	116.7p						118.4p

†: Notes refer to Other adjustments below

## First Time Adoption of IFRS

### Reconciliation of equity at 29 January 2005

	UK GAAP £m	Opening balance sheet adjustment £m	Leases IAS 17 £m	Share Based Payment IFRS 2 £m	Employee Benefits IAS 19 £m	Other † £m	Effect of transition to IFRS £m	Restated under IFRS £m
<b>ASSETS AND LIABILITIES</b>								
<b>Non-current assets</b>								
Property, plant & equipment	422.1	–	–	–	–	1.9 c	1.9	424.0
Intangible assets	31.9	–	–	–	–	4.3 a	4.3	36.2
Interests in associates	1.5	–	–	–	–	–	–	1.5
Deferred tax assets	–	22.4	1.3	2.8	2.3	(4.8)d	24.0	24.0
	455.5							485.7
<b>Current assets</b>								
Inventories	301.6	(0.8)	–	–	–	0.8 e	–	301.6
Trade and other receivables	436.0	1.1	0.3	–	–	–	1.4	437.4
Cash and short term deposits	72.3	–	–	–	–	–	–	72.3
	809.9							811.3
<b>Total assets</b>	<b>1,265.4</b>							<b>1,297.0</b>
<b>Current liabilities</b>								
Bank overdrafts	(22.3)	–	–	–	–	–	–	(22.3)
Unsecured bank loans	–	–	–	–	–	–	–	–
Trade and other payables	(538.0)	29.4	(6.5)	–	–	8.8 b	31.7	(506.3)
Current tax liability	(59.8)	–	–	–	–	–	–	(59.8)
	(620.1)							(588.4)
<b>Non-current liabilities</b>								
Corporate bond	(300.0)	–	–	–	–	–	–	(300.0)
Deferred tax liabilities	(13.3)	8.7	–	–	–	4.6 d	13.3	–
Net retirement benefit obligation	(19.8)	(65.4)	–	–	(7.4)	–	(72.8)	(92.6)
Provisions	(10.0)	–	–	–	–	–	–	(10.0)
Other liabilities	(29.5)	–	–	–	–	–	–	(29.5)
	(372.6)							(432.1)
<b>Total liabilities</b>	<b>(992.7)</b>							<b>(1,020.5)</b>
<b>Net assets</b>	<b>272.7</b>	<b>(4.6)</b>	<b>(4.9)</b>	<b>2.8</b>	<b>(5.1)</b>	<b>15.6</b>	<b>3.8</b>	<b>276.5</b>
<b>EQUITY</b>								
Share capital	26.1	–	–	–	–	–	–	26.1
Share premium account	0.6	–	–	–	–	–	–	0.6
Capital redemption reserve	3.8	–	–	–	–	–	–	3.8
ESOT reserve	(93.3)	–	–	–	–	–	–	(93.3)
Revaluation reserve	9.4	(14.0)	–	–	–	4.6 g	(9.4)	–
Foreign currency translation	–	–	–	–	–	0.6 f	0.6	0.6
Other reserves	(1,448.9)	14.0	–	–	–	(4.6)g	9.4	(1,439.5)
Retained earnings	1,775.0	(4.6)	(4.9)	2.8	(5.1)	15.0	3.2	1,778.2
<b>Total equity</b>	<b>272.7</b>	<b>(4.6)</b>	<b>(4.9)</b>	<b>2.8</b>	<b>(5.1)</b>	<b>15.6</b>	<b>3.8</b>	<b>276.5</b>

†: Notes refer to Other adjustments below

## First Time Adoption of IFRS

### Notes to the reconciliations

#### Leases (IAS 17)

Under UK GAAP, operating lease incentives (capital contributions, premiums paid and rent free periods) were recognised in the profit and loss account over the period to the first rent review. In accordance with IAS 17, lease incentives are now recognised in the income statement over the full term of the lease.

#### Share based payment (IFRS 2)

Under IFRS 2, the charge recognised in the income statement for share options, long term incentive plans and other share based payments are based on the 'fair value' of the awards, calculated using an option pricing model. This contrasts to UK GAAP, where the charge recognised was based on the 'intrinsic value' of awards, being the difference between the market value of the shares at the date of the award and the option exercise price.

In accordance with the transitional provisions of IFRS 2, the Group has applied the fair value model to all grants of equity instruments after 7 November 2002 that had not vested as at 1 February 2004.

#### Employee benefits (IAS 19)

##### *Retirement obligations*

Under UK GAAP, the cost to the Group of the defined benefit section of the Group pension scheme was charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the Group. The pension provision in the balance sheet represented the differences between contributions paid and cumulative amounts charged to profit; the assets and liabilities of the scheme itself were not recognised on the Group's balance sheet.

IAS 19 requires the operating and financing costs of defined benefit pensions to be recognised separately in the income statement, but permits a number of alternative accounting treatments for actuarial gains and losses. The Group has elected to recognise all actuarial gains and losses in full in the period in which they occur, directly in equity via the statement of recognised income and expense. This option has been selected for consistency, as it is most similar to the treatment required under UK GAAP (FRS 17) that has previously been disclosed by way of a note in the Group's financial statements.

The retirement benefit obligation recognised in the balance sheet under IAS 19 represents the present value of the defined benefit liabilities under the projected unit credit method, as reduced by the market value of scheme assets.

##### *Short term benefits*

IAS 19 requires holiday pay to be accrued for when the corresponding services have been received from employees. This results in the recognition of a provision of £2.7m on transition to IFRS.

#### Other adjustments

These adjustments are included within the 'Other' column in the reconciliations above, with major line item components referenced to the notes below.

##### *a Goodwill and business combinations (IFRS 3)*

The Group has elected to take the exemption available under IFRS 1 not to apply IFRS 3 retrospectively to business combinations occurring prior to the date of transition to IFRS. Goodwill arising on such acquisitions has therefore been retained at its UK GAAP carrying value at 1 February 2004, having been satisfactorily tested for impairment at that date.

Under UK GAAP goodwill was amortised over its useful economic life, but under IFRS no amortisation charge is made. This increases reported profit for the year ended 29 January 2005 by £4.3m. Instead, goodwill recognised in the balance sheet is subject to a review for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired.

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated as an asset and will not be included in determining any subsequent profit or loss on disposal.

## First Time Adoption of IFRS

### *b Dividends (IAS 10)*

Dividends are now recognised only when they are declared and approved, rather than accrued for in the period to which they relate. Compared to the treatment under UK GAAP this has the effect of deferring the recognition of dividends to the following half year. In addition, dividends are shown as a movement directly in equity instead of through the income statement.

### *c Property, plant & equipment (IAS 16)*

IAS 16 requires residual values to be based on prices current at the balance sheet date, whereas under UK GAAP residual values were based on prices prevailing at the date of acquisition. In the case of the Group's freehold and long leasehold property, the majority of which are recorded at historical cost, residual values assessed under IFRS are greater than the corresponding book values. Consequently, the depreciation charged on these properties after transition to IFRS will be zero, subject to an annual review of residual values. This increases reported profit for the year ended January 2005 by £1.9m.

### *d Deferred taxation (IAS 12)*

IAS 12 takes a balance sheet approach to deferred tax whereby deferred tax is recognised in the balance sheet by applying the appropriate tax rate to the temporary differences arising between the carrying value of assets and liabilities and their tax base. This contrasts to UK GAAP (FRS 19), which considers timing differences arising in the income statement.

Adjustments made to the financial statements on the transition to IFRS result in related adjustments to deferred tax, particularly with regard to lease incentives, share based payments and post-retirement benefits. Due to the excess of capital losses brought forward within the Group, changes to capital deferred tax assets do not affect reported deferred tax balances. Net deferred tax assets have also been reclassified from deferred tax liabilities.

### *e Borrowing costs (IAS 23)*

Under UK GAAP, the Group had a small amount of capitalised interest (£0.8m) included within property stocks. No other capitalised interest was included in the book values of any other current or fixed assets. Under IFRS, the Group is required to apply its policy of non-capitalisation consistently across all classes of asset. Accordingly, the capitalised interest is written off on transition to IFRS (resulting in a correspondingly increased profit on the subsequent disposal of property).

### *f Cumulative translation differences*

Under IFRS, exchange differences arising on consolidation on the translation of overseas subsidiaries are required to be recognised as a separate equity reserve. On disposal of an overseas subsidiary, the cumulative exchange gain or loss associated with that subsidiary is recognised in the income statement as part of the profit or loss on disposal.

The Group has utilised the exemption available in IFRS 1 whereby cumulative translation differences are deemed to be zero at the date of transition to IFRS; the profit or loss on all subsequent disposals therefore excludes any translation differences arising prior to 1 February 2004.

### *g Reclassifications*

Carrying values of previously re-valued assets have been treated as deemed cost on transition to IFRS, in accordance with the provisions of IFRS 1. Accordingly, the Group's revaluation reserve has been reclassified to other reserves.

## First Time Adoption of IFRS

### Financial instruments

In accordance with IFRS 1 *First Time Adoption of International Financial Reporting Standards*, the Group has elected not to restate comparative information for the impact of IAS 32 and IAS 39 *Financial Instruments*. The opening balance sheet at 30 January 2005 has been adjusted to reflect the adoption of these standards from that date and details of these adjustments are set out below.

Reconciliation of equity at 30 January 2005

	£m	£m
<i>Other financial assets</i>		
Recognition of foreign exchange derivatives at fair value		2.4
<i>Other financial liabilities</i>		
Recognition of interest rate swaps at fair value	(9.0)	
Recognition of foreign exchange derivatives at fair value	(10.6)	
Recognition of contingent share purchase contracts	(36.4)	
		(56.0)
Restatement of corporate bond to fair value		7.4
Deferred tax adjustment on recognition of derivatives		2.5
		(43.7)
Opening balance sheet adjustment for adoption of IAS 32 & 39		276.5
Total equity at January 2005 under IFRS as previously stated		232.8
Total equity at January 2005 after adoption of IAS 32 & 39		232.8

## Group Companies

The Company has taken advantage of Section 231(5) of the Companies Act 1985 to list only its principal subsidiary and associated undertakings at 28 January 2006. All of 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 <sup>1</sup>	Retailing of womenswear, menswear, childrenswear, home products, accessories and jewellery
NEXT Directory <sup>2</sup>	Home shopping for womenswear, menswear, childrenswear, home products, accessories and jewellery
Club 24 Limited <sup>1</sup>	Customer and financial services management
Ventura <sup>3</sup>	Customer and financial services management
First Retail Finance Limited <sup>1</sup>	Customer and financial services management
NEXT Sourcing Limited <sup>1</sup>	Overseas sourcing services (Hong Kong)
NEXT Manufacturing (Pvt) Limited <sup>1</sup>	Garment manufacture (Sri Lanka)
NEXT Distribution Limited <sup>1</sup>	Warehousing and distribution services

### Associated undertakings

Choice Discount Stores Limited <sup>1</sup>	Retailing (40%)
Cotton Traders Holdings Limited <sup>1</sup>	Home shopping and retailing (33%)

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 SHAREHOLDERS OF NEXT PLC

We have audited the group and parent company financial statements (the "financial statements") of NEXT plc for the year ended 28 January 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Recognised Income and Expense, Accounting Policies, the related Notes 1 to 42, First Time Adoption of IFRS and Group Companies. These financial statements have been prepared under 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, the Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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 and International Standards on Auditing (UK and Ireland).

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 and Article 4 of the IAS Regulation. 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 regarding directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined 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. The other information comprises the Summary of Performance, Chairman's Statement, Chief Executive's Review, Directors' Report, Corporate Governance Statement, Corporate Responsibility Statement, the 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company'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.



## **Independent Auditors' Report**

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### **Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 28 January 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 28 January 2006; 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 and Article 4 of the IAS Regulation.

**Ernst & Young LLP**  
**Registered Auditor**  
**London**

**23 March 2006**

## Half Year and Sector Analysis

Year ended January

	First half £m	Second half £m	2006 £m	First half £m	Second half £m	2005 £m
<b>Revenue</b>						
NEXT Retail	989.4	1,227.4	2,216.8	924.3	1,133.3	2,057.6
NEXT Directory	311.8	373.2	685.0	278.2	324.4	602.6
NEXT Sourcing	5.3	3.4	8.7	8.6	11.6	20.2
NEXT Franchise	16.5	22.7	39.2	14.2	19.3	33.5
Ventura	70.1	79.1	149.2	64.1	67.7	131.8
Other activities	3.7	3.6	7.3	4.1	8.7	12.8
	<b>1,396.8</b>	<b>1,709.4</b>	<b>3,106.2</b>	1,293.5	1,565.0	2,858.5
<b>Profit before tax</b>						
NEXT Retail	116.3	203.6	319.9	112.2	188.9	301.1
NEXT Directory	45.6	60.5	106.1	38.6	50.9	89.5
NEXT Sourcing	13.6	19.3	32.9	12.6	20.2	32.8
NEXT Franchise	3.3	4.6	7.9	2.5	3.5	6.0
Ventura	3.7	9.9	13.6	6.6	6.8	13.4
Other activities	(1.3)	(8.4)	(9.7)	(0.7)	0.4	(0.3)
Profit before interest	181.2	289.5	470.7	171.8	270.7	442.5
Net interest payable	(8.6)	(13.0)	(21.6)	(9.2)	(9.0)	(18.2)
Profit before tax	172.6	276.5	449.1	162.6	261.7	424.3

## Five Year History

Year ended January

	<b>2006</b>	2005	2004	2003	2002
	<b>£m</b>	£m	£m	£m	£m
	<b>IFRS</b>	IFRS	UK GAAP	UK GAAP	UK GAAP
Revenue	<b>3,106.2</b>	2,858.5	2,516.0	2,202.6	1,871.7
Profit before interest	<b>470.7</b>	442.5	375.5	301.5	258.6
Net interest (payable)/receivable	<b>(21.6)</b>	(18.2)	(17.3)	(0.3)	7.2
Profit before taxation	<b>449.1</b>	424.3	358.2	301.2	265.8
Taxation	<b>(135.6)</b>	(118.9)	(108.1)	(90.7)	(76.0)
Profit after taxation	<b>313.5</b>	305.4	250.1	210.5	189.8
Total equity	<b>256.2</b>	276.5	155.1	275.1	546.9
Shares purchased for cancellation	<b>15.0m</b>	4.0m	21.7m	43.9m	6.4m
Dividend per share	<b>44.0p</b>	41.0p	35.0p	31.0p	27.5p
Earnings per share	<b>127.4p</b>	120.2p	93.9p	68.7p	58.1p

## Notice of Meeting

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other financial advisor authorised under the Financial Services and Markets Act 2000.**

**If you have sold or otherwise transferred all your NEXT shares, please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.**

Notice is hereby given that the Annual General Meeting of NEXT plc will be held at the Ramada Jarvis Hotel, 73 Granby Street, Leicester, LE1 6ES on Wednesday 17 May 2006 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 28 January 2006.
- 2 To approve the remuneration report for the period ended 28 January 2006.
- 3 To declare a final dividend of 30p per share in respect of the period ended 28 January 2006.
- 4 To re-elect John Barton as a director who retires by rotation according to Article 91.
- 5 To re-elect Christos Angelides as a director who retires by rotation according to Article 91.
- 6 To re-elect Derek Netherton as a director who retires by rotation according to Article 91.
- 7 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 8 to 10 will be proposed as Ordinary Resolutions and resolutions 11 to 14 as Special Resolutions.

#### 8 Performance Share Plan

That the rules of the NEXT 2006 Performance Share Plan (the "Plan"), the main features of which are summarised in Appendix 1 on pages 77 to 80 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:

- (a) make such modifications to the Plan as they may consider appropriate to take account of the requirements of the UK Listing Authority and best practice to adopt the Plan as so modified and to do all such acts and things as they may consider appropriate to implement the Plan; and
- (b) establish further plans based on the Plan but modified to take account of local tax, exchange control or securities law in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the Plan.

#### 9 NEXT Risk/Reward Investment Plan

That the NEXT Risk/Reward Investment Plan (the "Plan"), the main features of which are described in Appendix 2 on pages 80 to 81, be and is hereby approved and the directors be and are hereby authorised to take any action they consider necessary to implement the Plan, such authority to expire at the date of the Company's Annual General Meeting in 2007.

## Notice of Meeting

### 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 £8,000,000 such authority to expire at the date of the Company's Annual General Meeting in 2007, save 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 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 £1,200,000 being less than 5% of the issued ordinary share capital outstanding at 21 March 2006 and shall expire at the date of the Company's Annual General Meeting in 2007, 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 36,000,000 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 105 per cent of 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) 15 months after the date on which this resolution is passed, and
  - (b) the conclusion of the Annual General Meeting of the Company held in 2007;

## Notice of Meeting

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- (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.

### 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 3 on pages 81 to 83 (the authority conferred by this special resolution to expire on whichever is the earlier of 15 months after the date on which this resolution is passed and the conclusion of the Annual General Meeting of the Company held in 2007, 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 to Articles of Association

That Article 88(1) of the Articles of Association of the Company be and is hereby amended by the insertion after the words "higher of" in the tenth line, of "£1,500,000,000" in substitution for "£1,000,000,000".

By order of the Board.

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

**12 April 2006**

# Notice of Meeting

## APPENDIX 1

### FURTHER INFORMATION ON RESOLUTION 8: PERFORMANCE SHARE PLAN (the "Plan")

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.

#### Operation

The Remuneration Committee of the Company (the "Committee") will supervise the operation of the Plan.

#### Eligibility

Any employee (including an executive director) of the Company and any of its subsidiaries will be eligible to participate in the Plan at the discretion of the Committee, provided that they are not within six months of their anticipated retirement date (unless employed in a jurisdiction where this provision would be unlawful).

#### Grant of awards

The Committee may grant an award in one of three forms:

- (i) conditional allocations, where a participant will receive free ordinary shares in the Company on the vesting of the award;
- (ii) nil or nominal cost options, where a participant can decide when to exercise the award over shares during a limited period of time after it has vested; or
- (iii) forfeitable shares, where a participant will have certain shareholder rights prior to the vesting of the award but will only receive complete ownership of shares on the vesting of that award.

The Committee may decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash (either in whole or part). The current intention is for awards to be structured as nil cost options.

The Committee may normally grant awards within six weeks of the approval of the Plan by the shareholders of the Company and within six weeks following the Company's announcement of its results for any period. The Committee may also grant awards when there are exceptional circumstances which the Committee considers justifies the granting of awards.

No awards will be granted more than ten years after the approval of the Plan by shareholders and the Committee will review its operation after no more than five years.

No payment will be required for the grant of an award. Awards are not transferable (other than to the participant's personal representatives in the event of death). Awards are non-pensionable.

#### Individual limit

An individual may not normally receive awards in any financial year over shares having a market value on grant in excess of 200% of the annual base salary. In exceptional circumstances, for example upon the recruitment or retention of a senior executive, an individual may receive awards in a financial year over shares having a market value on grant up to 300% of annual base salary. Initially, it is proposed that awards granted over shares to executive directors will be restricted to a maximum value of 100% of annual base salary and, for other eligible employees, to 80% of annual base salary. In working out these limits, the average closing share price over the 3 months preceding the start of the performance period will be used (as in the calculation of total shareholder return in the preceding performance period).

#### Overall Plan limits

The Plan may operate over new issue shares, treasury shares or shares purchased in the market.

## Notice of Meeting

In any period of ten calendar years the Company may not issue (or have the possibility to issue) more than 10 per cent of the issued ordinary share capital of the Company under the Plan and any other employee share scheme adopted by the Company. In addition, of this 10%, not more than half (i.e. 5%) may relate to share options other than savings related share options.

Treasury shares will count as new issue shares for the purposes of this limit but they will also cease to count towards this limit if institutional investor bodies decide that they need not count. Where, prior to the capital reconstruction in November 2002, the previous holding company of the group granted share options over its shares (that were either exercised or exchanged for options over shares in the Company), those options will be treated as though granted by the Company at the time of the original option grants.

### Vesting of awards

Awards will normally vest on the later of the expiry of the relevant three year performance period and the date that the Committee determines the extent to which the applicable performance conditions (see below) have been satisfied and provided the participant is still a director or employee in the Company's group.

### Performance conditions

All awards will be subject to performance conditions set by the Committee each year and will reflect the Company's performance over a single fixed three year performance period commencing on the first day of the financial year in which awards are granted.

Initially, the vesting of awards will be subject to the same performance conditions as apply in respect of awards made under the Company's existing long term incentive plan, which are based on a target measuring the Company's total shareholder return ("TSR") against the TSR of approximately 20 other UK listed retail companies (the "Comparator Group"). Accordingly, it is proposed that the Comparator Group for initial awards will comprise of the following companies:

Body Shop	G.U.S.	Marks & Spencer	Signet
Boots	JJB Sports	Matalan	Tesco
Burberry	J Sainsbury	MFI Furniture	WH Smith
Carpentryright	Kesa	Mothercare	Wm Morrison
Dixons	Kingfisher	N. Brown	Woolworths
Findel			

TSR will be calculated using the average closing return indices for each company over the three month period before the beginning of the performance period and the three month period prior to the end of the performance period.

<i>The Company's TSR ranking against the Comparator Group</i>	<i>Percentage of the total number of shares held under an award that will vest</i>
Below median	0%
Median	30%
Upper quartile	100%
Between median and upper quartile	30% to 100% on a straight-line basis

Irrespective of where Company performance ranks, no award will vest unless the earnings per share of the Company has increased by at least the increase in the Retail Prices Index over the relevant performance period.

There will be no opportunity to retest performance if the performance conditions are not satisfied over the three year performance period. The Committee may however vary the performance conditions applying to existing awards to take account of events that the Committee considers exceptional, including technical events (such as changes in accounting standards), the treatment of an event affecting a company in the Comparator Group from time to time and the impact of corporate events (including acquisitions by the Company) provided that, in the opinion of the Committee, the varied performance conditions are not materially less challenging than those originally set.



## Notice of Meeting

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The Committee will review the performance conditions each time awards are granted in order to ensure that they are not materially less challenging (taking account of the Company's financial circumstances that prevail at the relevant time) and may impose different performance conditions for awards granted in subsequent years. The Committee will consult shareholders (and major representative bodies) before applying substantially different performance conditions to awards from those described above.

### **Leaving employment**

As a general rule, an award will lapse upon a participant leaving the employment of the Company's group. However, if before the vesting of an award a Participant ceases to be a director or employee within the Company's group by reason of death, injury, disability, redundancy, retirement at contractual retirement age or any other age with the agreement of his employer, the sale or transfer of their employing company or business out of the Company's group, or any other reason as determined by the Committee, then the award will vest on the normal vesting date provided that the performance conditions have been satisfied at that time, with a pro-rata reduction in the size of the award for the time that has elapsed up to the date of cessation compared to the original three year vesting period.

In other exceptional circumstances, the Committee will have discretion to determine that an award will vest on the date of cessation to the extent that the performance conditions have been satisfied at that time (taking account of the fact that the performance conditions will be measured over a shorter period than originally envisaged) and time pro-rating shall apply.

The Committee can decide not to pro-rate the award if it decides it would be inappropriate to do so in the particular circumstances.

### **Corporate events**

In the event of a takeover, scheme of arrangement, or winding up of the Company (not being an internal corporate reorganisation), all awards will vest early to the extent that the performance conditions have, in the opinion of the Committee, been satisfied at that time. The awards will generally be subject to a time pro-rated reduction to reflect the reduced period of time between the grant of the awards and the time of vesting although this reduction may not be applied if the Committee determines otherwise.

Awards may also vest on the same basis if a demerger, special dividend or other similar event is proposed which in the opinion of the Committee would affect the market price of the shares to a material extent.

In the event of an internal corporate reorganisation, awards will normally be replaced by equivalent new awards over shares in a new holding company, unless the Committee decides that awards should vest on the same basis as described above.

### **Participants' rights**

Awards structured as conditional allocations and options will not confer any shareholder rights on participants until the awards have vested and the participants have received their shares. Holders of awards of forfeitable shares will have certain shareholder rights except that they will be required to waive their right to receive dividends.

### **Rights attaching to shares**

Any shares allotted when an award vests or when it is exercised will rank equally with all other shares then in issue (except for rights arising by reference to a record date prior to their allotment).

### **Variation of capital**

In the event of any variation of the Company's share capital, or in the event of a demerger, payment of a special dividend or other similar event which materially affects the market price of the shares, the Committee may make such adjustments as it considers appropriate to the number of shares subject to an award and/or the exercise price payable (if any).

### **Alterations to the Plan**

The Committee may, at any time, amend the provisions of the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of shares or the transfer of shares held in treasury, the basis for determining a participant's entitlement to, and the terms of, the shares or cash to be acquired and the adjustment of awards or options.

## Notice of Meeting

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made 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 for participants or for any company in the Company's group.

### Overseas Plans

The Board may at any time without further shareholder approval establish further plans in overseas territories, any such plan to be similar to the Plan, but modified to take account of local tax, exchange control or securities laws, provided that any shares made available under such further plans are treated as counting against the limits on individual and overall participation in the Plan.

## APPENDIX 2

### FURTHER INFORMATION ON RESOLUTION 9: NEXT RISK/REWARD INVESTMENT PLAN (the "Plan")

Following the approval given by shareholders at the Company's Extraordinary General Meeting on 15 July 2005 for the risk/reward investment plan, shareholders' approval is sought for the Company to offer its key executives the opportunity to participate in a further Plan. Under UKLA Listing Rules, the continued employment condition imposed on participants determines that the Plan is regarded as a long term incentive plan and, as such, requires prior shareholder approval. The principal features of the Plan are unchanged from the plan approved in July 2005 and are summarised below.

The Remuneration Committee will determine the executive directors and senior executives (approximately 25) that may participate in the Plan, all of whom would be regarded as important to the future of NEXT. The Plan requires these participants to make a personal investment in a financial contract out of their own resources. As with the 2005 Plan, it is proposed that NEXT will make special contributions to the NEXT Employee Share Ownership Trust (the "ESOT"), which will make investments in financial contracts with similar potential returns. These investments would be held on revocable trusts for those executives who have made a personal investment. On maturity, any returns accruing to the trust would only be distributed (either in NEXT shares and/or cash) to those participants who have remained with NEXT (save to the extent described below). This continued employment condition would therefore increase the incentive for the participant to remain with NEXT and commit to its future development.

The investments are derivative instruments that require NEXT's share price to grow substantially. The ESOT investments will be in the form of listed warrants purchased directly from Goldman Sachs International or BNP Paribas Arbitrage Issuance BV. Participants' personal investment contracts will be structured as a bet with an independent third party regulated by the FSA which may also purchase warrants to hedge its risk under those contracts. The minimum and maximum share price targets, as well as the potential returns on maturity, will be materially the same for both the ESOT's and the participants' investments.

The pricing of the warrants and participants' personal investment contracts will be determined at the time of their issue and will be primarily dependent on NEXT's prevailing share price and future dividend expectations. Participants will lose their investment in full if growth does not reach the minimum level.

The Remuneration Committee believes that targets for the 2006 investments will be extremely challenging for the retail industry in the current economic environment. Furthermore, the participants are required to invest and risk their own funds and will lose their total investment at all share prices up to the Minimum Share Price (£20.50 in 2005), whereas Shareholders will continue to benefit from any share price increase up to and beyond the Minimum Share Price. By contrast, most LTIP arrangements are of a nil cost nature and lack personal financial commitment by executives.

As in 2005, the total cost to NEXT of the Plan in 2006 will be limited to a maximum of £2 million, inclusive of any employer's national insurance liabilities and corporation tax reliefs available to the Company. If the amount invested by the Company prior to the Company's Annual General Meeting in 2007 is less than £2 million then no additional investments may be made and this authority will lapse at that time. It is important to note that any returns in excess of these costs will be paid for by the counterparties to the contracts and will not be subsidised, supported or underwritten by NEXT in any way.

Each participant will be limited to an amount that, in the opinion of the Remuneration Committee, represents a significant, but not excessive, investment of personal funds. In addition, the potential contribution by NEXT to fund investments made by the ESOT will

## Notice of Meeting

be limited to a maximum of three times the personal investment of each participant. The benefits provided by NEXT under the Plan will not be pensionable.

In the event that a participant leaves the Company's employment before the maturity of the investment contracts (other than in 'good leaver' circumstances such as redundancy, disability or death), any entitlement to a return on investments held by the ESOT will be forfeited in full. In 'good leaver' circumstances, any entitlement will be restricted pro-rata to the time the participant was employed by NEXT during the investment period. Any excess returns received by the ESOT which would have otherwise accrued to departing executives will be retained in the trust and used, at the discretion of the trustee, to provide benefits for other employees of the NEXT group.

Based on a share price of £17.25 and current market conditions, a target price range as for the 2006 investments is likely to be £23.00 to £27.50. The investment of up to £2 million in the Plan by the Company should be viewed in the context of the required growth in shareholder value. On this basis, unless a Final Share Price of £23.00 is achieved in July 2010, representing an increase in shareholder value of at least £1.4 billion, the executives would lose all of their investments. If the Final Share Price reaches £27.50, the increase in shareholder value would be around £2.5 billion, whilst executives would receive the maximum return of approximately 14 times their personal investment. Against a share price of £17.25 and market capitalisation of £4.2 billion, the Board believes that, in conjunction with proposed LTIP incentives, implementation of the Plan in 2006 will help maintain management focus on the long term creation of shareholder value.

The Remuneration Committee will have a general power to amend the terms of the Plan. However, changes to:

- the persons participating in the Plan;
- the maximum amount that NEXT may contribute in total to the ESOT;
- the maximum NEXT contribution to the ESOT in relation to each participant's personal investment;
- the basis for determining, and the terms of, a participant's entitlements under the Plan; and
- the basis of adjustments to a participant's entitlements under the Plan in the event of a variation of the Company's share capital

will not be made to the advantage of any participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the Plan, to take account of a change of legislation or to obtain or maintain favourable tax, or regulatory treatment to participants or the Company or any member of the NEXT group).

Authority to implement the Plan will expire at the Annual General Meeting in 2007.

### APPENDIX 3

#### FURTHER INFORMATION ON RESOLUTION 13: CONTINGENT PURCHASE CONTRACTS

By virtue of special resolution number 12 passed at the Company's Annual General Meeting ("AGM") on 18 May 2005, shareholder authority was given to the Company to make on-market purchases of shares for cancellation. This authority was limited to a maximum of 39 million shares and expires on the earlier of the date of the AGM held in 2006 or 18 November 2006. At the same AGM, authority was granted to the Company to make off-market purchases of shares for cancellation under contingent purchase contracts to be entered into with each of Goldman Sachs International, UBS AG and Deutsche Bank AG. This authority was limited to a maximum of 6 million shares and expires on the earlier of the date of the AGM to be held in 2006 or 18 November 2006. Since the granting of those authorities, the Company has bought back 15,103,000 shares for cancellation, representing 5.7% of its issued share capital at 29 January 2005, at a total cost £217.5 million. Of these purchases, 2,150,000 shares have been bought pursuant to contingent purchase contracts at a total cost of £30.6 million.

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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 has been for the Company to enter into contingent forward purchase contracts outside of Close Periods. Pursuant to the authority granted at the 2005 AGM, the Company entered into agreements with each of the above banks (the "Existing Agreements") and the Company intends to terminate the Existing Agreements and enter into new agreements. 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) enter into 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 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 AGM in 2007 or 15 months after the date on which the resolution is passed 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 2.4% of its issued share capital at 28 January 2006;
- the total cost of shares that the Company would be permitted to purchase pursuant to this authority may not exceed £100 million (including costs);

## Notice of Meeting

- 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 entered into 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 2006 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 2007 or on 17 August 2007, 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 share options to subscribe for shares outstanding at 21 March 2006 was 9,687,546. This represents 3.9% 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 2006 would represent 4.0% of the reduced issued share capital.

### Attendance and voting

All members who hold ordinary shares are entitled to attend and vote at the Annual General Meeting ("AGM"). 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 16 May 2006 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 16 May 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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.

## Notice of Meeting

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### **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 AGM to be held on 17 May 2006 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.



# NEXT

annual report and accounts january 2006

[www.next.co.uk](http://www.next.co.uk)  
[www.nextflowers.co.uk](http://www.nextflowers.co.uk)

