

Annual Report & Accounts

January 2007

next

“**Exciting,**
beautifully designed,
excellent quality clothing
and homeware;

presented in collections that reflect the aspirations
and means of our customers



NEXT plc Annual Report

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Forward Looking Statements

Certain statements which appear in a number of places throughout this Report and Accounts may constitute "forward-looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward-looking statements are identifiable by words such as "believe", "estimate", "anticipate", "plan", "intend", "aim", "forecast", "expect", "project" and similar expressions. These forward-looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties, including but not limited to those risks described in "Risks & Uncertainties" on pages 11 to 12; failure by NEXT to predict accurately customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of NEXT's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; lack of sufficient consumer interest in NEXT Directory; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. These forward-looking statements do not amount to any representation that they will be achieved as they involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward-looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

January 2007 Summary of Performance



"I am pleased to report that NEXT has had another solid year. In a difficult and competitive year both sales and profits have grown to record levels."

- Group turnover increased 5.7% to £3.3 billion
- Profit before tax increased 6.5% to £478m from £449m

"Our emphasis in the year ahead will be to improve the performance of our existing operations. This offers the best opportunity to deliver superior returns."

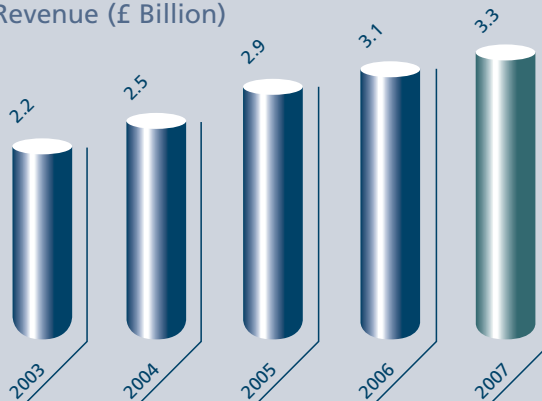
- Earnings per share increased 14.7% to 146.1p

"In the seven years since January 2000 we have returned £2 billion to shareholders through dividends and share buybacks."

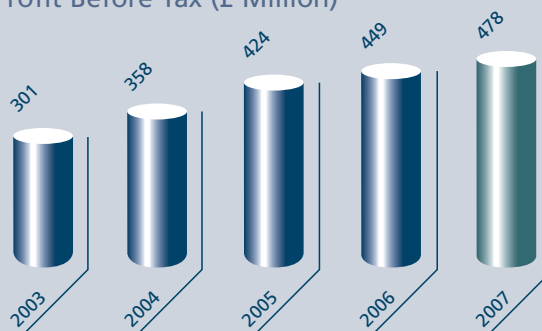
- Dividends for the year increased 11.4% to 49p from 44p
- 19 million shares purchased and cancelled during the year at a cost of £316m

"I am confident that our strategy will continue to deliver great product and service to our customers and a healthy return to our shareholders."

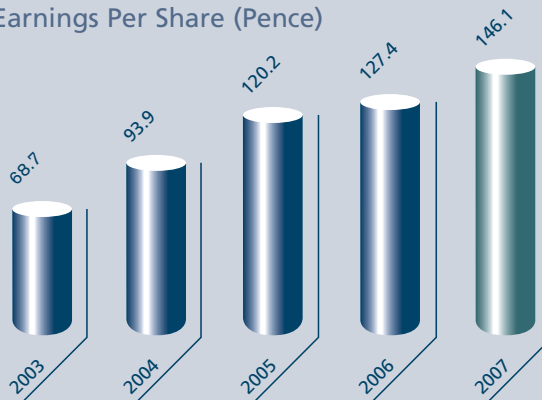
Revenue (£ Billion)



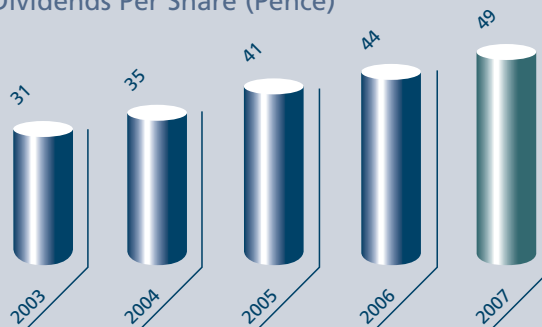
Profit Before Tax (£ Million)



Earnings Per Share (Pence)



Dividends Per Share (Pence)



Chairman's Statement

I am pleased to report that NEXT has had another solid year. In a difficult and competitive year both sales and profits have grown to record levels. Earnings per share have risen by 14.7% to 146.1p, enhanced by the beneficial effect of share buybacks over the past two years.

In the seven years since January 2000 we have returned £2 billion to shareholders through dividends and share buybacks, which is more than the market value of the whole company at that time.


In order to deliver our primary financial goal of long term sustainable growth in earnings per share our emphasis in the year ahead will be to improve the performance of our existing operations.

In his report, Simon Wolfson lays out some of the steps which are being taken to ensure the vitality of the NEXT Brand. Of these the most important is our constant desire to improve the product we offer our customers. The achievement of this objective and the intention to continue our buyback programme, where appropriate, offers us the best opportunity to deliver superior returns to our shareholders.

Derek Netherton, who has served 10 years on the Board, has signalled his intention to step down in 2008 and we have commenced the search for a new non-executive, who will also take over from Derek as Chairman of the Audit Committee in due course.

I am confident that our strategy of being a highly focused operation combined with the continued return of cash to shareholders will continue to deliver great product and service to our customers and a healthy return to our shareholders.

I would like to thank our staff, suppliers and in particular our management team, who have led us through a challenging period.



John Barton
Chairman

Directors' Report and Business Review

The Directors present their annual report and audited accounts for the financial year ended 27 January 2007.

PRINCIPAL ACTIVITIES

NEXT is a UK based retailer offering stylish, good quality products in clothing, footwear, accessories and home products. NEXT distributes through three main channels: NEXT Retail, a chain of more than 480 stores in the UK and Eire, the NEXT Directory, a direct mail catalogue and transactional website with more than 2 million active customers, and NEXT Franchise, with more than 120 stores overseas.

Other Group businesses include:

- Next Sourcing, which designs, sources and buys NEXT and Lime branded products; and
- Ventura, which provides customer services management to clients wishing to outsource their customer contact administration and fulfilment activities.

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

BUSINESS STRATEGIES & OBJECTIVES

The primary financial objective of the Group is to deliver long term sustainable growth in earnings per share. We aim to achieve this by implementing the following strategies in our operating businesses:

- Improving and developing NEXT product ranges, success in which is reflected in total sales and like for like sales growth;
- Profitably increasing NEXT selling space - all new store appraisals must meet demanding financial criteria before any investment is made and success is measured by monitoring achieved sales and profit contribution against appraised targets;
- Increasing the number of customers shopping from home with the NEXT Directory and their average spend;
- Improving gross and net margins by better sourcing, continuous cost control and efficient management of stock levels and working capital; and
- Purchasing shares for cancellation where it is earnings enhancing and in the interest of shareholders generally.

Directors' Report and Business Review

CHIEF EXECUTIVE'S REVIEW

A FINANCIALLY SUCCESSFUL YEAR

The financial objective for NEXT plc is the delivery of long term sustainable growth in earnings per share. EPS have increased by 14.7% in a year that we anticipated would be challenging. Profit before interest increased by 7.8% and these gains were enhanced through the purchase for cancellation of 7.7% of our share capital during the year.

Progress in profits has been made despite negative like for like sales growth in NEXT Retail. This has been achieved through rigorous cost control, good stock control in the second half, improving gross margins and continued sales growth in NEXT Directory. Operating profits were at the top end of our expectations and were further enhanced by an unexpected reduction in the pension charge following the year end actuarial valuation.

PROFIT AND LOSS ACCOUNT

	Turnover excluding VAT		Profit & Earnings per share		
	2007 £m	2006 £m	2007 £m	2006 £m Restated	
NEXT Retail	2,255.0	2,216.8	316.6	329.1	
NEXT Directory	774.5	685.0	143.9	96.9	
The NEXT Brand	3,029.5	2,901.8	460.5	426.0	+8.1%
NEXT Franchise	49.8	39.2	6.0	7.9	
NEXT Sourcing	6.4	8.7	31.8	32.9	
Ventura	190.9	149.2	20.6	13.6	
Other activities	7.2	7.3	(1.1)	(3.7)	
Share option charge	–	–	(8.3)	(8.1)	
Unrealised exchange (loss)/gain	–	–	(2.0)	2.1	
Turnover & operating profit	<u>3,283.8</u>	<u>3,106.2</u>	<u>507.5</u>	<u>470.7</u>	+7.8%
Interest expense			(29.1)	(21.6)	
Profit before tax			<u>478.4</u>	449.1	+6.5%
Taxation			(146.9)	(135.6)	
Profit after tax			<u>331.5</u>	<u>313.5</u>	+5.7%
Basic earnings per share			146.1p	127.4p	+14.7%

LIKE FOR LIKE SALES

Despite a solid profit performance from the NEXT Group, like for like Retail sales were a disappointment and stabilising this measure will be our primary goal in the year ahead. At the beginning of last year we said that like for like sales would be negative as a result of improving competition and a worsening consumer environment. However we recognise that there are things we can do internally to improve the performance of the NEXT Brand. What we have to do is simple, but not easy – recapture some of the magic and excitement that has gone hand in hand with the success of NEXT over many years.

Directors' Report and Business Review

REVITALISING THE NEXT BRAND

Over the last six months we have taken steps to revitalise the NEXT Brand and these changes will become more apparent as the year progresses. In order of importance, the programme we have put in place focuses on:

- Improving our product offer.
- Improving the marketing of the brand.
- Further development of our shop fit and store environment.

The following paragraphs talk about some of the things we are doing, the language mirrors the way in which we have communicated these objectives within the business. The starting point is setting out what the NEXT Brand stands for:

**Exciting, beautifully designed,
excellent quality clothing and homeware;
presented in collections that reflect the aspirations and means of our customers**

Improving the Product Offer

There are three main themes that must influence the way we put our ranges together going forward:

- **More focus on newness**
NEXT ranges will contain more newness and be less dependent on repeating last year's best sellers. This is only partly about introducing new suppliers and improving lead times, it is mainly about having the courage and intuition to back new trends with conviction – before having firm evidence that they will succeed! Essentially this is a cultural change rather than a change in procedure.
- **More focus on quality**
As a result of considerable success at the lower end of our price architecture we had become less focused on mid and higher price points. Going forward we will maintain our price starter business, but increase the emphasis on beautifully designed, great quality product at mid to upper price points. This is the product that customers come to NEXT for.
- **Product we love**
This is the hardest idea to put into words, but essentially we need to be personally more connected with our clothing. As a retail business becomes more successful there is a temptation to begin to regard the product as a commodity – we need to like, wear and be excited by our product. When new items arrive in our shops, the first thing the staff should think is not "that will sell", but "I want that!".

Marketing

We have always believed that the product makes the brand and not vice versa, however it is not enough that we only improve our product ranges. Every contact we have with the customer needs to convey the excitement and quality we aspire to in our clothing and homeware.

To this end we will continue to upgrade all the elements of our instore marketing from graphics through to internal displays. We have spent over two million pounds replacing window bust forms with new mannequins. In larger stores we are also rolling out internal mannequin displays.

Directors' Report and Business Review

For the first time in many years we have undertaken a brand advertising campaign, which will continue at regular intervals throughout the year. Overall we estimate we will spend in the region of £10m in the year ahead (up from £1.5m last year). The aim is that all of our communications will reflect the theme of the campaigns – instore, windows, web page, direct mail and elsewhere.

Shop Fit

The 13 stores refitted last year continue to perform ahead of our expectations and have improved their sales performance by 5%. In the light of this we have undertaken a more radical review of our shop fit.

The first concept change in May last year was essentially decorative; the next phase will tackle every element of a store from decoration through to centre floor fixtures, flooring and circulation space. We will be introducing elements of the new shop fit throughout the spring and summer but the first full refit in the new concept will be Bluewater Park, Kent which will re-launch at the end of May. The first new store to be opened in the new concept will be Sheffield Meadowhall in late August.

The following table summarises our shop fit programme for the year ahead. It shows both the capital we expect to spend and the percentage of space we expect to reflect the new concept in some way by the end of the year.

Square Feet 000's	Refits	New Stores	Total
Spring Summer	297	174	471
Autumn Winter	356	268	624
Full Year	<u>653</u>	<u>442</u>	<u>1,095</u>
Percentage of portfolio	13%	8%	21%
Capital expenditure £m	Refits	New Stores	Total
Spring Summer	17	24	41
Autumn Winter	17	39	56
Full Year	<u>34</u>	<u>63</u>	<u>97</u>

NEXT RETAIL

Retail Sales

Sales in NEXT Retail were 1.7% ahead of last year. Like for like sales in stores that traded continuously and were not affected by the opening of new space were -7.2% down on last year. Weak full price like for like sales of -6.6% were further reduced as a result of smaller end of season Sales than last year.

	2007		2006	
	No. stores	LFL %	No. stores	LFL %
Total	394	-10.0%	343	-7.1%
Underlying	269	-7.2%	224	-2.9%

NEXT defines like for like stores as those that have traded for at least one full year and have not benefited from significant capital expenditure. Sales from these stores for the current year are then compared to the same period in the previous year to calculate like for like sales figures. Underlying like for like sales applies the same calculation to only those stores which were unaffected by new store openings.

Directors' Report and Business Review

New Space

In the year we added a net 514,000 square feet and increased the number of stores by 41 to a total of 480.

	2007	2006	Annual change
Store numbers	480	439	41
Square feet 000's	4,823	4,309	514

Selling space is defined as the trading floor area of a store, excluding stockroom, administration and other non-trading areas.

We estimate that payback of the net capital invested in new space will be 17 months, which will be well within our investment criteria of 24 months. When appraising a new store we account for the loss of sales and profit from nearby stores that we expect to suffer a downturn as a result of the new opening. Sales from new space, net of this deflection, are now forecast to be -0.4% down on our appraised target.

We currently expect to add a net 350,000 square feet in the year ahead.

Retail Profit

Profit in NEXT Retail decreased by -3.8% compared with last year. Net operating margin was down from 14.8% to 14.0%. The erosion in margin is detailed in the table below, the figures show the change as a percentage of sales for each of our major heads of cost.

Net operating margin last year	14.8%
Increase in achieved gross margin	+1.5%
Increase in branch occupancy costs	- 1.9%
Increase in branch wage costs	- 0.4%
Change in central overheads	0.0%

Net operating margin this year	14.0%

Gross margin is the difference between the cost of stock and the initial selling price. Operating margin is the residual profit after deducting markdowns and all direct and indirect trading costs. Both are expressed as a percentage of the achieved VAT exclusive selling price.

The improved gross margin was a result of better sourcing, and was achieved without raising prices or reducing quality. The bought in gross margin was up 1.6% which reduced to an achieved margin improvement of 1.5% after slightly higher markdown costs. Branch occupancy costs increased as a percentage of sales due to the impact of lower like for like sales on fixed expenses such as rent, rates, depreciation and energy. Wages increased marginally as a percentage of sales mainly as a result of the cost of living pay award at the beginning of the year.

NEXT DIRECTORY

Directory Sales

NEXT Directory performed well with sales 13.1% ahead of last year. Improved stock availability, lower returns rates and increased service charge income meant that sales rose faster than the underlying demand. Demand, which is the total value of all items requested by customers before adjusting for out of stocks or returns, was 4.9% up on last year.

The increase in demand was driven by an increase of 6.4% in the average number of active customers and an increase of 13.6% in printed pages.

The internet continues to grow in importance and since January this year has taken just over 50% of Directory sales.

Directors' Report and Business Review

Outlook for Customer Recruitment

We begin the year with 2.2% more customers than last year. We are anticipating that the growth in Directory customer numbers will be slower in the year ahead. There are two reasons for this:

- We have increased the credit status requirements to eliminate some of the bad debt we incurred last year.
- We anticipate a significant increase in competition for new customers online (in the clothing sector and across all other retail sectors). The effect of this will be to push up the cost of recruitment online.

Increasing Sales per Customer

As recruitment slows there will be an increased emphasis on increasing sales per customer. There are two key initiatives:

- **Broadening the product offer**
This will mainly be in the Home and Electricals category. In order to allow us to increase the number of pages in the main catalogue, for Autumn Winter we will be printing two separate hard back catalogues – one for Fashion and the other for Home.
- **Improved internet functionality**
We will improve the search-ability of the site, both from external search engines and within the site using our own search engine. We will also begin to develop active selling software to encourage link sales.

	2007	2006
Average active customers	2.14 million	2.01 million
Increase on prior year	+6%	+11%
Average sales per customer	£363	£351

Active customers are defined as those who have placed an order in the last 20 weeks or who are paying off a current balance. The average for the year is calculated as a weighted average of each week's figure. Average sales per customer are calculated as statutory sales divided by the average number of customers.

Directory Profit

NEXT Directory profit was up 48.5% on last year, an exceptional performance, and significantly ahead of the growth in sales. The improvement in net operating margin is detailed in the table below, the figures show the change as a percentage of sales for each of our major heads of cost.

Net operating margin last year	14.1%
Reduction in achieved gross margin	-0.2%
Increase in bad debt	-0.6%
Increase in service charge income	+1.5%
Reduction in central overheads	+3.8%
Net operating margin this year	18.6%

The achieved gross margin declined despite an increase in the bought in gross margin of 1.2%. This year we transferred less stock from Directory to Retail for the end of season Sales, which resulted in higher markdowns and the achieved gross margin declining by -0.2%. Although we experienced a significant increase in bad debt, this was more than compensated for by an increase in service charge income.

Central overheads reduced very significantly as a percentage of sales. Much of the improvement came as a result of new warehousing techniques made possible by the opening of our new boxed warehouse. Improved collation rates meant that we needed fewer separate deliveries per order. This contributed to significantly lower distribution costs and warehouse picking costs were also down. Increased use of the internet and our call centre in India meant that call centre costs also reduced as a percentage of sales.

Directors' Report and Business Review

BRAND COST ALLOCATION

We have revised the allocation of costs between the NEXT Directory and NEXT Retail. In order to facilitate comparisons we have presented last year's figures on a consistent basis. There is no change to the total NEXT Brand profit as a consequence.

COST CONTROL

We anticipate the retail environment will remain challenging and it will be important for NEXT to continue to make cost savings throughout the business. We believe that there is still the opportunity to make improvements to our operating efficiency, albeit not on the scale we achieved last year. We also believe we can make some further progress in improving our bought in gross margins.

LIME

Lime, the value brand trading in NEXT Clearance stores, is now also in 10 stand alone stores. The performance of Lime in NEXT Clearance is satisfactory and provides a useful way to capitalise on the footfall generated by our clearance products. It also allows us to make up for the inevitable gaps in the clearance ranges.

The performance in stand alone stores is not yet strong enough to warrant any significant roll out, although we will open 2 further stores this spring. We will be able to make an initial assessment of Lime as a stand alone concept early in 2008, as by then we will have like for like sales comparisons.

NEXT FRANCHISE

Sales to our overseas franchise partners grew by 27% during the year. However, our franchise partners' own sales rose by only 14%, the difference being due to over-ordering by one of our partners. This stock was sold on a cost plus royalty basis, so whilst we have recovered the cost of the stock we have not made any profit on it.

We now allocate a share of central costs to NEXT Franchise, primarily warehouse and merchandising, which amounted to £2.4m for the year. This will continue going forward. Excluding this re-allocation of costs, comparable profit for NEXT Franchise rose by 6.7%.

Our partners opened 33 new stores in the year, making 129 in total. Our largest region remains the Middle East in terms of store numbers and sales. Europe is growing strongly with 13 stores opened in Russia and 5 in Turkey. Stores were also opened in India and Thailand and we anticipate that 25 new stores will be opening during the current year.

NEXT SOURCING (NSL)

NSL achieved lower sales than expected in the second half and ended the year at £31.8m profit, £1.1m below last year. The major cause was the tight buying and stock levels maintained by NEXT Retail and Directory which led to lower income in NSL. Action has been taken on costs to bring them into line with expected activity levels for 2007.

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. It has offices in mainland China, Hong Kong, Romania, Sri Lanka, Turkey and the UK engaged in the design, sourcing, buying, merchandising and quality control of NEXT products.

VENTURA

Ventura continued to build on its excellent first half. Turnover for the year increased by 28% to £191m and, as a result, profits of £20.6m were ahead of our original expectations.

Ventura continues to retain and win new clients through its focus on delivering high quality service at excellent value for money. It operates across many sectors including Telecoms, Utilities, Financial Services, Travel, Media and the Public Sector. Ventura now employs 10,000 people and operates a wholly owned call centre in India. We expect Ventura to make further progress in sales and profits in the year ahead.

In 2007 Ventura will commence selling warehouse and distribution services, initially using available capacity in the NEXT Retail and Directory network.

Directors' Report and Business Review

OTHER ACTIVITIES

The Other Activities charge was £1.1m including Central Costs of £7.9m. Other Activities also includes profits from our Property Management Division, Choice (an associated company which operates sixteen discount stores) and Cotton Traders (an associated company which sells its own brand products).

During the year the Group paid £32.5m of extra contributions into its pension scheme. This, together with changes in actuarial assumptions, reduced the scheme deficit from £116m to £47m. The charge in Central Costs in respect of the scheme deficit, which is in addition to normal contributions, reduced to £0.8m this year compared with £5.9m last year.

BALANCE SHEET AND CASH FLOW

Cash flow was very strong and before share buybacks we achieved an inflow of £237m. The net cash outflow after share buybacks was £79m. Net borrowings at the year end were £444m and are financed through a £300m 5.25% 10 year bond, which was issued in June 2003, and a new 5.875% 10 year bond issued last October. The Group also has £450m of medium term bank facilities which are currently unused.

Capital expenditure included £89m on stores and £39m on warehousing. We expect this year's expenditure will be in the region of £170m. Year end stock levels at £282m were 13% down on last year, which was partly due to the timing of shipments from our suppliers and was £10m below our preferred level. Debtors of £578m included £424m of Directory customer account balances, which in future are expected to rise more in line with Directory sales.

SHARE BUYBACKS

During the year we purchased a further 19 million shares for cancellation at an average price of 1661p and a cash cost of £316m. This was 7.7% of the shares in issue at the beginning of the year and was achieved by a combination of market purchases and the use of contingent purchase contracts. We intend to continue with this strategy of buying back shares as and when it is in the interests of shareholders generally. Resolutions to renew these authorities will be put to shareholders at the AGM in May.

	2007	2006
No. of shares purchased ('000)	19,046	15,011
% of opening share capital	7.7%	5.7%
Total cost, including stamp duty and associated costs (£m)	316.3	217.5
Average cost per share (£)	16.61	14.49

DIVIDEND

The Directors are recommending a final dividend of 33.5p against 30p last year, bringing the total for the year to 49p compared with 44p, an increase of 11.4%. The dividend is again covered almost 3 times by earnings per share of 146.1p. It is not our intention for dividend cover to rise above three times.

CURRENT TRADING

The combined sales of NEXT Retail and NEXT Directory for the seven week period from 28 January to 17 March 2007 were up 4.4% compared to the same period last year.

NEXT Retail sales were up 4.1% in the period. Mainline like for like sales in the 320 stores that were unaffected by new openings were down -0.3%.

NEXT Directory sales were up 5.3% in the period.

These figures for the seven week period need to be treated with some caution as this year the period includes the week before Mothers' Day and last year it did not. We estimate that as a result both NEXT Retail and Directory sales have been flattered by around 1.5%.

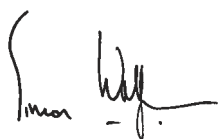
Directors' Report and Business Review

OUTLOOK FOR 2007

We believe the consumer environment will remain challenging. Whilst we are still cautious for the year ahead we do expect to make progress in stabilising NEXT Retail like for like sales.

We are currently budgeting in the first half for NEXT Retail full price like for likes to be in the range -1% to -4%, a significant improvement on the -7.2% achieved last year.

NEXT remains highly cash 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
22 March 2007

RISKS & UNCERTAINTIES

The Board has a policy of continuous identification and review of key business risks and oversees the development of processes to ensure that these risks are managed appropriately. Executive directors and operational management are delegated with the task of implementing these processes and reporting to the Board on their outcomes. The key risks identified by the Board include:

- **Business strategy development & implementation**

If the Board adopts the wrong business strategy or does not implement its strategies effectively, the business may suffer. The Board needs to understand and properly manage strategic risk in order to deliver long term growth for the benefit of all NEXT's stakeholders.

- **Key personnel**

The success of NEXT depends in part on the continued service of its key management and technical personnel and on its ability to continue to attract, motivate and retain highly qualified employees. The retail sector is very competitive and NEXT staff are frequently targeted by other companies for recruitment.

- **Product design & selection**

The success of NEXT depends on providing exciting, beautifully designed, excellent quality clothing and homeware. Success also depends upon its ability to anticipate and respond to changing consumer preferences and trends. Many of NEXT's products represent discretionary purchases and demand for these products could decline in a recession or other period in which consumer confidence is negatively affected.

- **Suppliers & supply chain management**

NEXT is dependent on its supplier base to deliver products on time and to the quality standards it specifies. Failure to develop its supplier base may produce an over-reliance on particular suppliers of product and services and reduce the competitiveness of its product offer. Non-compliance by suppliers with the NEXT Code of Practice may increase reputational risk.

- **Retail store network & Directory customer base**

Growth of NEXT's retail business is dependent upon increasing the floor space within its store network and customers spending more. NEXT will continue to invest in new stores and refurbish its existing portfolio where its financial criteria are met. Whilst the anticipated effect of sales deflection is factored into new store appraisals, there can be no assurance that the impact of new openings will not result in a greater deflection of sales from existing stores.

Successful development of new stores is dependent upon a number of factors including the identification of suitable properties, obtaining planning permissions and the negotiation of acceptable purchase or lease terms. There is significant competition for desirable sites in the retail sector, which has resulted in increased rents and costs of operations, a trend which may continue.

Directors' Report and Business Review

Growth of the NEXT Directory business depends upon the recruitment and retention of its customer base and increasing the average spend per customer. NEXT will continue to recruit new customers where they satisfy its credit score requirements. However, there can be no assurance that new customers will result in higher sales per customer or lower incidence of bad debts, compared with the existing customer base.

- **Warehousing & distribution**

NEXT regularly reviews its warehouses and the related logistics operations that support its businesses. Risks include business interruption due to physical property damage, access, breakdowns in warehouse systems, capacity shortages, inefficient processes and delivery service failures.

- **IT systems & business continuity**

NEXT is dependent upon the continued availability and integrity of its computer systems. Each of its businesses must record and process a substantial volume of data and conduct inventory management accurately and quickly. The Group expects that its systems will require continuous enhancements and ongoing investment to prevent obsolescence and maintain responsiveness to business needs.

- **Call centre capacity & service levels**

NEXT is dependent on the efficient operation of its call centres to receive and respond to customer orders and enquiries in its home shopping and customer service management businesses. Insufficient manpower and interruption in the availability of telephony systems to meet customer service requirements are the principal risks.

- **Treasury & risk management**

The main financial risks of NEXT relate to the availability of funds to meet business needs, default by counter-parties to financial transactions (credit risk), and fluctuations in interest and foreign exchange rates. In addition, NEXT's business expansion and share buyback strategy may necessitate the raising of additional finance, which would in turn increase interest costs and could give rise to fluctuations in profit. Higher debt levels would also result in an increase in the proportion of cash flow dedicated to debt service and potentially increase its exposure to interest rate fluctuations.

NEXT operates a centralised treasury function which is responsible for managing its liquidity, interest and foreign currency risks. The Group's treasury policy allows the use of derivative instruments provided they are not entered into for speculative purposes. Further details of the Group's treasury operations are given in Note 31 to the financial statements.

EMPLOYEES

People are key to achieving the Group's business objectives. NEXT 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 employees and their working environment.

Equal opportunities

NEXT is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination. 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.

Training and development

NEXT aims to realise the potential of its employees by supporting their career progression and promotion wherever possible. It makes significant investment in the training and development of staff and in training and education programmes which contribute to the internal promotion prospects of employees.

Employee communication

NEXT has a policy of providing employees with financial and other information about the business and ensures that the suggestions and views of employees are taken into account. NEXT has an employee forum made up of a network of elected representatives from throughout the business who attend meetings at least twice a year with senior managers and directors. This forum enables and encourages open discussion on key business issues, policies and the working environment.

Directors' Report and Business Review

Employee share ownership

More than 10,000 NEXT employees held options over a total of 9.2 million shares in NEXT at January 2007. Its employee share ownership trust (ESOT) has purchased shares in the market and issues them to employees when options are exercised. At the year end the ESOT held 6.4 million shares. The Board believe this has minimised the true cost of share options and the dilution of shareholders' interests that would otherwise occur from the issue of new shares.

Pension provision

The NEXT Pension Scheme provides a valuable pension benefit to its participating employees, details of which are set out on pages 27 and 28 of the Remuneration Report and in Note 23 to the financial statements. As at 27 January 2007, there were 2,321 active members in the defined benefit section and 2,063 members in the defined contribution section.

SOCIAL & ENVIRONMENTAL MATTERS

NEXT continues to consolidate and integrate Corporate Responsibility ('CR') commitments throughout the Group. A third party provides independent assurance on the content of the 2007 CR report, which will be published on the Company's website later this year. NEXT's commitment to CR matters has also been recognised externally by its continuing membership of the FTSE4Good Index Series.

NEXT has 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 its 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.

Suppliers

NEXT has identified its supply chain as a key area of consideration for CR activities and its supplier Code of Practice remains at the heart of the Group's operations. The code is a set of ethical trading standards which form an integral part of NEXT's business and stipulates the minimum standards for its suppliers in relation to workers' rights and conditions of work, health, safety, welfare and environmental issues. During the year the Code of Practice team has been expanded both in the UK and overseas and a Code of Practice conference was held to educate suppliers on its requirements. Internal training is also provided to improve identification of potential Code of Practice risks. NEXT works in partnership with organisations in the UK and overseas to establish how ethical standards can be applied, implemented and monitored both in factories and with home-workers.

NEXT'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 NEXT Group at 27 January 2007 were 24 days (2006: 25 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 27 January 2007 or 28 January 2006.

Customers

NEXT aims to provide a high quality service to all its customers and products that are safe and fit for purpose. The Group endeavours to ensure accessibility to its different shopping channels for all customers, including those with disabilities or impairments.

In addition to its store and call centre employees, NEXT has over 100 people working in its Customer Service departments actively engaged in dealing promptly and efficiently with customer issues and enquiries. There is a continuous process to facilitate communication between different parts of its operations in responding to customers and to ensure appropriate escalation of enquiries and disputes.

In monitoring compliance with its supplier Code of Practice and operation of detailed quality control procedures, NEXT aims to ensure its products comply with all relevant laws and its own safety and performance standards.

Directors' Report and Business Review

Health and safety

NEXT recognises the importance of health and safety at work and its management is designed to contribute to improving business performance. Practical measures, such as risk assessment, are undertaken to ensure that the Group's activities and products do not harm customers, employees, contractors, sites or equipment. Procedures are in place to enable effective two way communication and consultation about health, safety and welfare issues in order to achieve a high level of safety awareness.

Environment

The improvement of waste stream management has continued to be a priority for NEXT during the year. A process to reverse haul cardboard and plastic from its stores to distribution centres for recycling commenced during the year. As a result, stores and warehouses recycled over 13,760 tonnes of cardboard (2006: 13,644 tonnes) and over 1,964 tonnes of polythene (2006: 1,304 tonnes). NEXT will continue to strive for further improvements in this area, and in the recycling of other waste streams, in the year ahead.

NEXT continues to seek ways to reduce product packaging and has entered into a voluntary code of practice in conjunction with DEFRA and other retailers to reduce the environmental impact of the Group's carrier bags.

The Waste Electrical and Electronic Equipment Directive was adopted in January 2007 and will become law in the UK during 2007. NEXT made changes in Eire following the implementation of the Directive there in August 2005 and is well positioned for its introduction in the UK. NEXT continues to work with The Carbon Trust to review opportunities for energy efficiency in its stores, warehouses and offices throughout the business: from 2007 an energy efficient lighting scheme has been introduced into new stores.

Community

During the year the Group made charitable donations of £383,000 (2006: £350,000). No donations were made for political purposes. NEXT has a well established charities and sponsorship programme which invested £619,000 (2006: £588,000) during the year in a variety of community projects, including donations to charity and community organisations as well as sponsorship of sports and fashion organisations. Fundraising events raised an additional £28,000 and NEXT supports a range of charities through product donations, sales of Christmas cards and employees giving time to good causes.

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 146 home village in Sri Lanka with central social facilities is now almost completed, with 120 houses now occupied by displaced families.

All monies contributed in respect of the tsunami disaster were in addition to existing commitments and did not reduce the funds available to the Group's existing corporate charity and sponsorship programme.

ANNUAL GENERAL MEETING & OTHER MATTERS

Dividends

The Directors recommend that a final dividend of 33.5p per share be paid on 2 July 2007 to shareholders on the register of members on 25 May 2007. 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 and major shareholders

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 19,046,199 ordinary shares of 10p each for cancellation at a cost of £316.3m, representing 7.7% of its issued share capital. The authority to purchase shares is renewable annually and approval will be sought from shareholders at the 2007 Annual General Meeting to renew the authority.

On 27 January 2007 the Company had 227,053,930 shares in issue. As at 20 March 2007, there had been no subsequent changes to the Company's issued share capital.

Directors' Report and Business Review

As at 20 March 2007 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	%
FMR Corp.	19,349,860	8.52
Barclays plc	10,878,678	4.79
Lloyds TSB Group	10,344,950	4.56
Massachusetts Financial Services Co.	8,594,045	3.79
Legal & General	8,480,461	3.73

Directors

The current Board is shown on page 19 of this report. Mr Keens and Mr Brookes will retire by rotation. Mr Netherton has now been a member of the Board for ten years and, in line with the Combined Code, is subject to annual re-election. All are eligible and willing to be reappointed.

The Board has formally reviewed the performance of all three directors and concluded they remain effective and are committed to their respective roles at NEXT. Mr Netherton's length of service was considered in conjunction with the principles of the Revised Combined Code. The directors were satisfied that Mr Netherton remained independent in both character and judgement. Furthermore, the Board concluded his retailing experience with Greggs Plc and other business interests continue to enable him to maintain an independent, critical and relevant stance of the Group's retailing and other business operations and in his role as chairman of the Audit Committee. The Board further concluded there were no other factors or circumstances which were likely to affect his continued independence.

The Board is in the process of recruiting a new non-executive director who will have recent and relevant financial experience and be a member of the Audit Committee. It is intended that Mr Netherton will stand down from that committee after a suitable period to ensure continuity and transfer of knowledge.

The interests of the directors who held office at 27 January 2007 and their families are shown in the Remuneration Report on pages 31 and 32.

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.

Disclosure of information to auditors

In accordance with the provisions of Section 234ZA of the Companies Act 1985, each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Notice of the Annual General Meeting is on pages 74 to 83 and includes the following business:

Risk/Reward investment plan

The Company first implemented its innovative Risk/Reward investment plan in July 2004 (the "2004 Plan"). The retail sector was highly competitive and NEXT's staff were frequently targeted by its rivals for recruitment. The Remuneration Committee considered that NEXT offered competitive base salaries, annual bonuses and an appropriate long term incentive plan compared to most publicly listed retailers. However, unlike private companies, publicly listed companies such as NEXT were unable to offer key executives the opportunity to invest in their equity with the prospect of a leveraged capital profit. The 2004 Plan was introduced by NEXT to address this issue and assist in the retention and recruitment of its key executives.

Directors' Report and Business Review

A revised structure was approved by shareholders in July 2005 (the "2005 Plan") which included enhanced retention features. Both the 2004 and 2005 Plans assist in retaining and rewarding NEXT's key executives who have consistently delivered above average total shareholder return. Both plans require that NEXT's share price meet demanding thresholds before any return is achieved and details of the 2005 Plan are given on page 26 of the Remuneration Report. Over the five years to January 2007, the management team has achieved total shareholder return of 141%, including share price growth of 105%. During this period, earnings per share have increased by 151%, dividends have grown by 78% and £1,192 million has been returned to shareholders through the Company's share buyback programme.

Approval for a further plan was given by shareholders at the 2006 AGM. The Remuneration Committee did not consider it appropriate to implement a new plan during the last year and is unlikely to do so every year. Nevertheless, the retail sector remains extremely competitive and NEXT's rivals continue to target its key staff. Accordingly, resolution 8 will be proposed to approve a further plan (the "2007 Plan"), thereby retaining the Company's flexibility to offer a similar incentive to its key executives and attract new talent to the management team. The structure of the 2007 Plan would be the same as the 2005 Plan and would cost the Company a maximum of £2 million to implement. The principal features of the 2007 Plan are summarised in Appendix 1 to the Notice of the Annual General Meeting.

Renewal of authority to allot shares

Ordinary resolution 9 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 2008 Annual General Meeting is limited to £7,400,000, being approximately 33% of the total ordinary share capital in issue at 20 March 2007, none of which are held in treasury. The Directors do not have any present intention of exercising this authority.

Special resolution 10 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 2008 and do not intend to issue more than 7.5% of the issued share capital of the Company in any rolling three year period without prior consultation with the Institutional Investment Committees.

On-market purchase of own shares

Special resolution 11 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 34,000,000 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 12: 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 2008.

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.

Directors' Report and Business Review

The total number of share options to subscribe for shares outstanding at 20 March 2007 was 9,140,181. This represents 4.0% of the issued share capital at that date. If the Company was to buy back the maximum number of shares permitted pursuant to this resolution, then the total number of options to subscribe for shares outstanding at 20 March 2007 would represent 4.7% of the reduced issued share capital.

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 the shares purchased under this authority.

Contingent contracts and off-market share purchases

The Directors consider that share buybacks are an important means of returning value to shareholders and maximising long term sustainable growth in earnings per share. Contingent contracts for off-market share purchases offer a number of additional benefits compared to on-market share purchases:

- Contingent contracts allow the Company to purchase shares at a discount to the market price prevailing at the date each contract is entered into. Since their first use in December 2004, up to 20 March 2007, a total of 10,700,000 ordinary shares has been bought back for cancellation under such contracts for £167m, at a discount of £6m (or 3.6%) compared to market prices prevailing when the relevant contract commenced.
- Low share liquidity often prevents the Company from purchasing a large number of shares on a single day without affecting the prevailing market price. Contingent contracts enable the Company to purchase blocks of shares over a period of time without distorting the prevailing share price. This purchase method is also cash flow advantageous insofar as it defers the cash outflow of any related buybacks.
- Contingent contracts enhance flexibility in the Company's buyback activity when trading volumes are low or would otherwise be restricted from buying on-market, e.g. during close periods. The Company has previously entered into irrevocable and non-discretionary programmes to allow it to buy shares during close periods. By entering into contingent contracts prior to any close period, the Company is also allowed to purchase shares off-market during these periods.
- Competitive tendering involving up to four banks is used which minimises the risk of hidden purchase costs. The tender pricing mechanism ensures that the Company retains the benefit of forecast dividends, as well as any dividends declared, on share purchase commitments covered by contingent contracts.

The Directors would 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 would only purchase shares for cancellation using such contracts if it were earnings enhancing and in the best interests of shareholders generally.

Special resolution 12 will give the Company authority to enter into further contingent purchase contracts with each of Goldman Sachs International, UBS AG, Deutsche Bank AG and Barclays Bank plc 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 total number of shares which the Company would be permitted to purchase pursuant to this authority would be 10,000,000 and would not exceed a total cost of £200 million.

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

Change to Articles of Association and electronic communications

Special resolution 13 proposes the removal of Article 101 requiring directors to retire on reaching the age of seventy, which is no longer a requirement for public limited companies under the Companies Act 2006. This amendment will also reduce the scope for future claims against the Company under new age discrimination legislation in the United Kingdom.

Directors' Report and Business Review

Special resolution 14 proposes various changes to align the Company's Articles of Association with the provisions of the Companies Act 2006 which govern electronic communications with shareholders. Ordinary resolution 15 authorises the Company to communicate electronically with shareholders under these revised powers. The proposed changes and authority will allow the Company, with prior consent from individual shareholders, to distribute documents and information, such as annual reports and general meeting notices, via its web site or through other electronic media. The Directors intend to use these powers only where it is cost efficient to do so.

A copy of the proposed amended Articles of Association that reflect the above changes will be available for inspection at the Company's registered office at Desford Road, Enderby, Leicester, LE19 4AT during usual business hours 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

22 March 2007

Directors and Officers

CHAIRMAN OF THE BOARD

John Barton

Aged 62

Became a member of the Board in 2002 and was appointed Deputy Chairman in 2004 and Chairman in 2006. He is also a non-executive director of Hammerson Plc and WH Smith Plc. Formerly Chief Executive of JIB Group Plc and Chairman of Jardine Lloyd Thompson Group Plc and Wellington Underwriting Plc.

EXECUTIVE DIRECTORS

Simon Wolfson, Chief Executive

Aged 39

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 43

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 53

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 56

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)

N G Brookes

C Cross

J D S Dawson

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

Remuneration Committee

J D S Dawson (Committee Chairman)

R J O Barton

N G Brookes

C Cross

D N D Netherton

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

Nomination Committee

R J O Barton (Committee Chairman)

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

Jonathan Dawson, Senior Independent Non-executive Director

Aged 55

Became a member of the Board in May 2004. He is also a non-executive director of Galliford Try plc and National Australia Group Europe Ltd, a senior advisor to Apax Partners' financial services team and a partner in Penfida Partners LLP. Previous experience includes eight years in the Ministry of Defence and twenty years in investment banking with Lazard.

Nick Brookes

Aged 56

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

Christine Cross

Aged 55

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

Derek Netherton

Aged 62

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

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

Corporate Governance

Combined Code compliance

The Group complied with the provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance until the publication in June 2006 of a revised Code. The Group subsequently adopted the updated Code on a voluntary basis.

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 Barton and Mrs Cross who were each unable to attend one meeting and Mr Jones who attended two meetings prior to his retirement. All directors are required to submit themselves for re-election by shareholders at least once every three years.

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

The Board includes four independent non-executive directors and the Chairman 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 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 four 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. Five meetings were held during the year and all were fully attended with the exception of two which Mr Barton was unable to attend (prior to his appointment as Chairman).

Corporate Governance

Remuneration Committee

The Committee consists of the Chairman and four independent non-executive directors. The Committee, which is chaired by the senior non-executive director, determines the remuneration of the executive directors and reviews that of senior management. A Remuneration Report is included in this Annual Report. Four meetings were held during the year and all were fully attended, with the exception of one meeting which Mrs Cross and Mr Barton were unable to attend.

Nomination Committee

The Committee consists of the Chairman and four 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. One meeting was held during the year, which was attended by all members of the Committee.

External consultants are used to assist in identifying suitable candidates, based on a written specification for each appointment. The Chairman is responsible for providing 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 independent non-executive director of the Company prior to his appointment as Chairman on 17 May 2006. His other significant commitments are noted on page 19, and the Board considers that these are not a constraint on his 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 risk management of all business areas 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.

Corporate Governance

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, structure 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 where practical.

External auditors

The Group's 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. The Audit Committee's approval is required in advance for any non-audit services to be provided where the fees exceed £100,000 for an individual assignment or £150,000 in aggregate for the year. The Committee reviews details of audit and non-audit fees twice a year in conjunction with these policies.

Proposed assignments of non-audit services with anticipated fees in excess of £50,000 are subject to independent tender, and decisions on the allocation of work are made on the basis of competence, cost-effectiveness and relevant legislation. A tender process is not always undertaken where Ernst & Young's existing knowledge of the Group enables them as the Group's auditors to provide the required services more cost-effectively than other parties, for example shareholder circulars and certain overseas taxation compliance services. The Group's auditors are prohibited from providing any services that would conflict with their statutory responsibilities.

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 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

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. 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") as 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 accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the 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 accounts.

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 Group's Chairman and executive directors, and reviews that of senior executives. The members of the Committee who served during the year are listed in this Annual Report, and from June 2006 include the Chairman as permitted by the revised Combined Code. The Committee members have no conflicts of interest arising from cross-directorships, and no director is permitted to be involved in any decisions as to his or her own remuneration.

Remuneration policy

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

Policy is structured to provide a mix of remuneration to ensure that no one component or measure dominates and that interests are aligned over different time periods with other employees and shareholders. Packages include basic salary, annual bonus based on earnings per share and a long term incentive plan based on total shareholder return. It may also include optional participation in a risk/reward investment plan.

Salary

Directors' salaries 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 earnings per share growth must reach a demanding level of at least 20% for the maximum bonus to be earned.

Long term incentive plan

A new ten year plan was approved by shareholders at the 2006 Annual General Meeting. Invitations to participate are generally issued annually to executive directors and senior executives.

Under the 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 2007 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			

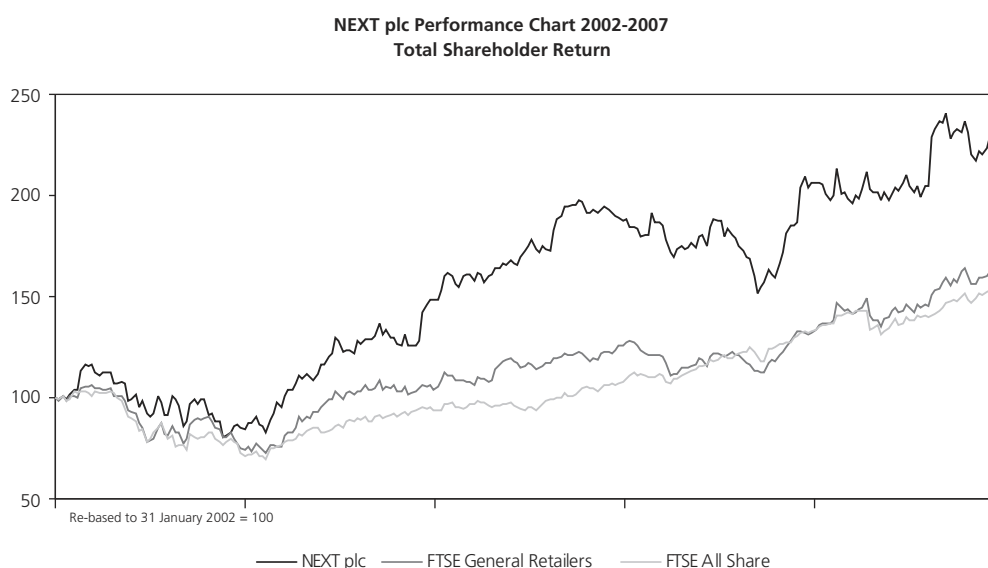
The Committee determines which companies are to be added to or removed from the comparator group. Laura Ashley, DFS Furniture and New Look have been removed for periods ending January 2008 onwards and have been replaced with Carpetright, Kesa and Wm Morrison Supermarkets. For periods ending January 2010 onwards Body Shop, MFI Furniture and Matalan have been removed from the comparator group and replaced by Debenhams, Carphone Warehouse and French Connection.

Remuneration Report

Following the merger of Boots Group with Alliance Unichem on 31 July 2006, data for Boots Group is used prior to the merger date and data for the merged entity thereafter. Similarly, following the demergers in the year of G.U.S. and W H Smith data for the appropriate demerged entity (Home Retail Group and W H Smith) is used after the date of the demerger.

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 with 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.



For performance periods commencing before January 2006 the maximum share award possible under the rules of the plan 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. For performance periods commencing January 2006 onwards the rules permit a maximum of 200% of basic salary (or 300% in exceptional circumstances), but it is proposed that awards will be restricted to a maximum of 100% of basic salary for directors and 80% for other eligible employees. Incremental awards have 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 and 130% of salary for the performance period commencing January 2006. The additional 30% awards are contingent on his remaining with the Group for a five year period to January 2009.

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

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

Remuneration Report

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.

Risk/Reward investment plan

In May 2006 shareholders approved a risk/reward investment plan similar to the plans implemented in 2004 and 2005. However, the Remuneration Committee did not consider it appropriate to introduce a new plan during the last year and is unlikely to do so every year. Full details of the 2005 Plan were included in the 2006 Remuneration Report, the main elements of which are repeated below.

In July 2005, a risk/reward investment plan was approved by shareholders. Following approval by the Remuneration Committee, the Group made a special contribution to the NEXT 2003 Employee Share Ownership Trust (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 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. 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.

The Company's share price must increase at the equivalent of an annual compound growth rate of 8.3% (adjusted for the difference between assumed dividends payable and actual dividends paid) 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%.

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

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	2007		2006	
	Investment from own resources	Special contribution to NEXT ESOT	Investment from own resources	Special contribution to NEXT ESOT
S A Wolfson	–	–	100	–
C E Angelides	–	–	66	198
D W Keens	–	–	50	150
A J Varley	–	–	50	150
	–	–	266	498
Senior employees	–	–	233	700
	–	–	499	1,198

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 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.

Remuneration Report

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 Group employees in the Republic of Ireland.

Sharesave options granted to directors in the year under review are detailed on page 31.

Group pension plan

Executive directors are eligible for membership of the NEXT Group Pension Plan (the "Plan") which has been approved by HM Revenue & Customs and consists of defined benefit and defined contribution sections.

The trustee of the Plan 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 Plan, 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. Following recent changes in pension legislation, a process will take place during 2007 to elect pensioner and member representatives as member nominated directors.

The Plan'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 Plan'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 Plan. 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.

Defined benefit section

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

Remuneration Report

For all current Plan members, pensionable earnings are comprised of basic pay, overtime and, prior to 1 October 2006, annual performance bonuses. No other items of remuneration are taken into account. From 1 October 2006, sales and profit related bonuses are no longer taken into account.

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 30 September 2005 and concluded that the Plan had a 19% deficit of assets compared with actuarial liabilities.

Members who joined the Plan after May 1989 and before October 2000 were, prior to 6 April 2006, subject to a statutory salary cap for approved pension schemes. This cap was set at £105,600 per annum for 2005/2006. From 6 April 2006, the statutory salary cap was removed and replaced with a lifetime allowance, subject to transitional rules. Certain members subject to the salary cap were provided with appropriate benefits through an unfunded, unapproved arrangement in relation to that part of their earnings which exceeded the cap, where they so elected. The unapproved arrangement continues to be provided in respect of certain members whose accrued or projected pension fund value exceeds their personal lifetime allowance. The relevant members contribute towards the additional cost of providing these benefits by paying 5% of pensionable earnings into the Plan.

From 1 October 2006, the normal retirement age under the Plan was increased from 60 to 65.

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 a basic fee for services in connection with Board and Board Committee meetings. Additional fees are paid for the roles of Chairman of the Remuneration Committee, Chairman of the Audit Committee and Senior Independent Non-executive Director. Letters of appointment do not contain notice periods, however non-executive directors are appointed in the expectation that they will serve for a minimum of six years, subject to satisfactory performance and successful re-election at Annual General Meeting. Non-executive directors receive a discount when purchasing the Group's merchandise but do not participate in any of the Group's bonus, pension, share option or other incentive schemes.

Remuneration Report

Information subject to audit

2007		Performance related bonus	Benefits	Total
Directors' remuneration £'000	Salary/fee			
Chairman				
D C Jones	83	–	9	92
R J O Barton	200	–	–	200
Executive directors				
S A Wolfson	581	453	33	1,067
C E Angelides	434	329	11	774
D W Keens	397	309	26	732
A J Varley	296	230	30	556
Non-executive directors				
N G Brookes	38	–	–	38
C Cross	38	–	–	38
J D S Dawson	46	–	–	46
D N D Netherton	45	–	–	45
Total	2,158	1,321	109	3,588
2006		Performance related bonus	Benefits	Total
Directors' remuneration £'000	Salary/fee			
<i>Chairman</i>				
D C Jones	250	–	27	277
<i>Executive directors</i>				
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
<i>Non-executive directors</i>				
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
<i>Total</i>	2,128	522	112	2,762

All directors were members of the Board throughout the two year period covered by the table above with the exception of Mr Jones who retired as Chairman and a director on 17 May 2006. Mr Barton served as a non-executive director until his appointment as Chairman on 17 May 2006.

Mr Wolfson was the highest paid director in the current and previous year.

The Company also paid a pension under the unfunded, unapproved arrangement to a former director of the Company of £32,771 (2006: £31,495).

Remuneration Report

Long term incentive plan

Estimated monetary values were included in the January 2006 Remuneration Report for the three year performance plan which matured at that date based on a share price of 1743p on 21 March 2006. Performance conditions of the plan are detailed above. Awards were made subsequent to the Report on 29 March 2006 when the share price was 1660p. 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 2007. The total shareholder return of the Company over this period ranked eighth in the group of 21 other listed retail companies. Accordingly an award of 57% of the maximum (equivalent to 40% 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 2007 and, based on the share price of 2092p on 20 March 2007, awards to directors would be as follows:

	January 2007		January 2006	
	Actual no. of shares	Estimated value £000	Adjustment to estimate £000	Final value £000
S A Wolfson	18,756	392	(34)	676
C E Angelides	19,487	408	(22)	451
D W Keens	12,788	267	(24)	482
A J Varley	9,549	200	(19)	376
	<u>60,580</u>	<u>1,267</u>	<u>(99)</u>	<u>1,985</u>

The performance periods of the annual long term incentive plans which mature in January 2008 and 2009 respectively are not yet complete and no entitlement has yet been earned. A charge of £4,794,000 (2006: £4,048,000) has been made in the accounts in respect of the estimate of the amount for awards relating to the year, of which approximately £2,329,000 (2006: £1,995,000) 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 27 January 2007:

	No. of shares to January 2008	No. of shares to January 2009
S A Wolfson	24,297	38,554
C E Angelides	25,244	36,451
D W Keens	16,566	26,287
A J Varley	12,370	19,627
	<u>78,477</u>	<u>120,919</u>

The provisional maximum awards for the performance period to January 2009 were allocated during the year. There have been no other changes to awards under the long term incentive plan during the year.

Directors' pension entitlements

All executive directors are members of the defined benefit section of the NEXT Group Pension Plan. Directors and some senior managers receive an enhancement from the Plan, increasing the accrual of their retirement benefit up to two thirds of their final pensionable earnings on completion of 20 years' pensionable service at age 65 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.

Remuneration Report

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

	Age at January 2007	Years of pensionable service	Accrued annual pension £'000	Increase in accrued annual pension £'000	Transfer value of accrued annual pension 2007 £'000	2006 £'000	Increase in transfer value less director's contributions £'000
S A Wolfson	39	12	181	20	1,219	1,222	(27)
C E Angelides	43	14	167	18	1,356	1,335	2
D W Keens	53	20	260	20	3,125	2,880	220
A J Varley	56	23	230	26	3,330	2,874	437

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 subject to the lifetime allowance 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			
	2007 No. of shares	2006 No. of shares	2007 No. of shares	2007 Average exercise price (p)	2006 No. of shares	2006 Average exercise price (p)
S A Wolfson	1,760,000	1,760,000	2,340	707	2,340	707
C E Angelides	80,108	80,108	1,081	1514	–	–
R J O Barton	12,000	8,000	–	–	–	–
N G Brookes	5,000	5,000	–	–	–	–
C Cross	1,500	1,500	–	–	–	–
J D S Dawson	1,000	1,000	–	–	–	–
D W Keens	180,963	210,963	1,873	865	1,873	865
D N D Netherton	–	–	–	–	–	–
A J Varley	79,887	90,571	748	1253	1,825	810

Share options expire at various dates up to June 2012. No director held any option with an exercise price above the market price of NEXT shares on 27 January 2007. Share options granted to or exercised by directors during the year were as follows:

	No. of shares	Exercise price (p)	Market price (p)	Date of grant	Date of exercise
Sharesave options					
C E Angelides	1,081	1514	–	24 October 2006	–
A J Varley	239	1514	–	24 October 2006	–
	530	620	1639	–	2 March 2006
	84	920	1786	–	1 December 2006
	702	707	1786	–	1 December 2006

Remuneration Report

The total value of options exercised, being the excess of market price over the exercise price on the dates of exercise, was £13,702 (2006: £49,535). The market price of shares at 27 January 2007 was 1946p and the range during the year then ended was 1600p to 1961p.

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 6,441,692 shares owned by the Trust at 27 January 2007. 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 20 March 2007. 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

Jonathan Dawson
Chairman of the Remuneration Committee

22 March 2007

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 27 January 2007 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 41 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' responsibilities 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 are 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 & Business Review is not consistent with the financial statements.

In addition we report to you if, in our opinion, 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 only the Summary of Performance, Chairman's Statement, Directors' Report & Business Review, Corporate Governance 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

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 27 January 2007 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 27 January 2007;
- 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; and
- the information given in the Directors' Report & Business Review is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
London

22 March 2007

Note

The maintenance and integrity of the NEXT plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Consolidated Income Statement

For the financial year ended 27 January	Notes	2007 £m	2006 £m
Revenue	2	3,283.8	3,106.2
Trading profit	2	506.1	468.9
Share of results of associates	11	1.4	1.8
Operating profit	3	507.5	470.7
Finance income	5	4.0	1.1
Finance costs	5	(33.1)	(22.7)
Profit before taxation		478.4	449.1
Taxation	6	(146.9)	(135.6)
Profit attributable to equity holders of the parent company		331.5	313.5
Basic earnings per share	8	146.1p	127.4p
Diluted earnings per share	8	144.3p	125.9p

Consolidated Statement of Recognised Income and Expense

For the financial year ended 27 January	Notes	2007 £m	2006 £m
<i>Income and expenses recognised directly in equity</i>			
Exchange differences on translation of foreign operations		(1.0)	2.4
(Losses)/gains on cash flow hedges		(34.7)	18.5
Hedging adjustment		2.3	–
Actuarial gains/(losses) on defined benefit pension schemes		32.5	(34.8)
Tax on items recognised directly in equity	6	(0.9)	10.4
		<hr/>	<hr/>
		(1.8)	(3.5)
<i>Transfers</i>			
Transferred to income statement on cash flow hedges		6.2	(1.5)
Transferred to the carrying amount of hedged items on cash flow hedges		5.8	(8.6)
		<hr/>	<hr/>
Net income/(expense) recognised directly in equity		10.2	(13.6)
Profit for the year		331.5	313.5
		<hr/>	<hr/>
Total recognised income and expense for the year	27	341.7	299.9
		<hr/>	<hr/>
<i>Adoption of IAS 32 and IAS 39</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
		<hr/>	<hr/>
Effects of changes in accounting policy	27	–	(43.7)
		<hr/>	<hr/>

Consolidated Balance Sheet

As at 27 January	Notes	2007 £m	2006 £m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant & equipment	9	544.4	514.1
Intangible assets	10	36.2	36.2
Interests in associates	11	2.2	1.8
Other investments	12	1.0	1.0
Other financial assets	15	2.2	1.4
Deferred tax assets	6	2.6	7.8
		588.6	562.3
Current assets			
Inventories	13	281.8	323.9
Trade and other receivables	14	577.7	513.8
Other financial assets	15	1.2	4.1
Cash and short term deposits	16	121.7	69.8
		982.4	911.6
Total assets		1,571.0	1,473.9
Current liabilities			
Bank overdrafts	17	(12.5)	(31.4)
Unsecured bank loans	17	(0.1)	(100.3)
Trade and other payables	19	(621.1)	(568.8)
Other financial liabilities	20	(23.6)	(1.8)
Current tax liability		(81.2)	(53.2)
		(738.5)	(755.5)
Non-current liabilities			
Corporate bonds	21	(531.2)	(298.1)
Net retirement benefit obligation	23	(47.0)	(115.6)
Provisions	24	(9.5)	(10.0)
Other financial liabilities	20	(19.2)	(4.5)
Other liabilities	25	(36.3)	(34.0)
		(643.2)	(462.2)
Total liabilities		(1,381.7)	(1,217.7)
Net assets		189.3	256.2
EQUITY			
Share capital	26	22.7	24.6
Share premium account	27	0.7	0.7
Capital redemption reserve	27	7.2	5.3
ESOT reserve	27	(76.9)	(89.3)
Fair value reserve	27	(19.9)	2.8
Foreign currency translation reserve	27	2.0	3.0
Other reserves	27	(1,443.7)	(1,441.7)
Retained earnings	27	1,697.2	1,750.8
Total equity		189.3	256.2

Approved by the Board on 22 March 2007

S A Wolfson Director
D W Keens Director

Consolidated Cash Flow Statement

For the financial year ended 27 January	Notes	2007 £m	2006 £m
<i>Cash flows from operating activities</i>			
Operating profit		507.5	470.7
Depreciation		102.3	81.2
Loss/(profit) on disposal of property, plant & equipment		2.9	(0.2)
Share option charge		8.3	8.1
Share of undistributed profit of associates		(0.4)	(0.3)
Exchange movement		2.6	(0.5)
Decrease/(increase) in inventories		42.1	(22.3)
Increase in trade and other receivables		(63.7)	(76.3)
Increase in trade and other payables		49.5	62.8
Pension contributions less income statement charge		(36.1)	(11.8)
		<hr/>	<hr/>
Cash generated from operations		615.0	511.4
Corporation taxes paid		(114.2)	(113.2)
		<hr/>	<hr/>
Net cash from operating activities		500.8	398.2
		<hr/>	<hr/>
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant and equipment		3.4	8.4
Acquisition of property, plant and equipment		(139.9)	(177.2)
Purchase of other investments		–	(1.0)
		<hr/>	<hr/>
Net cash from investing activities		(136.5)	(169.8)
		<hr/>	<hr/>
<i>Cash flows from financing activities</i>			
Proceeds from issue of share capital		–	0.1
Repurchase of own shares		(316.3)	(217.5)
Purchase of own shares by ESOT		(24.8)	(14.9)
Proceeds from disposal of shares by ESOT		27.8	15.7
Proceeds from issue of corporate bond		250.0	–
(Repayment)/proceeds of unsecured bank loans		(100.2)	100.3
Interest paid		(28.6)	(21.4)
Interest received		3.8	1.2
Payment of finance lease liabilities		(0.5)	(0.2)
Dividends paid		(103.9)	(103.7)
		<hr/>	<hr/>
Net cash from financing activities		(292.7)	(240.4)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		71.6	(12.0)
Opening cash and cash equivalents		38.4	50.0
Effect of exchange rate fluctuations on cash held		(0.8)	0.4
		<hr/>	<hr/>
Closing cash and cash equivalents	32	109.2	38.4

Company Balance Sheet

As at 27 January	Notes	2007 £m	2006 £m
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	35	2,477.7	2,477.7
Other financial assets	36	1.9	1.2
Deferred tax asset	36	0.1	0.8
		<u>2,479.7</u>	<u>2,479.7</u>
Current assets			
Trade and other receivables	36	63.4	1.5
Current tax asset		6.3	4.8
Cash and short term deposits	36	66.7	0.8
		<u>136.4</u>	<u>7.1</u>
Total assets		<u>2,616.1</u>	<u>2,486.8</u>
Current liabilities			
Unsecured bank loans	37	–	(100.0)
Trade and other payables	37	(10.0)	(299.3)
		<u>(10.0)</u>	<u>(399.3)</u>
Non-current liabilities			
Corporate bonds	21	(531.2)	(298.1)
Other financial liabilities	37	(19.2)	(4.5)
Other liabilities	37	(1.8)	(1.2)
		<u>(552.2)</u>	<u>(303.8)</u>
Total liabilities		<u>(562.2)</u>	<u>(703.1)</u>
Net assets		<u>2,053.9</u>	<u>1,783.7</u>
EQUITY			
Share capital	38	22.7	24.6
Share premium account	38	0.7	0.7
Capital redemption reserve	38	7.2	5.3
ESOT reserve	38	(76.9)	(89.3)
Other reserves	38	985.2	985.2
Retained earnings	39	1,115.0	857.2
Total equity	39	<u>2,053.9</u>	<u>1,783.7</u>

Approved by the Board on 22 March 2007

S A Wolfson Director
D W Keens Director

Company Statement of Recognised Income and Expense

For the financial year ended 27 January	Notes	2007 £m	2006 £m
<i>Income and expenses recognised directly in equity</i>			
Tax recognised directly in equity		(0.7)	0.5
Hedging adjustment		2.3	–
Net income recognised directly in equity		1.6	0.5
Profit/(loss) for the year		685.5	(11.9)
Total recognised income and expense for the year	39	687.1	(11.4)
<i>Adoption of IAS 32 and IAS 39</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	39	–	(38.0)

Company Cash Flow Statement

For the financial year ended 27 January	Notes	2007 £m	2006 £m
<i>Cash flows from operating activities</i>			
Operating loss		(0.3)	(0.3)
(Increase)/decrease in trade and other receivables		(61.5)	0.3
(Decrease)/increase in trade and other payables		(293.6)	231.1
		<hr/>	<hr/>
Cash generated from operations		(355.4)	231.1
Corporation taxes received		4.8	4.7
		<hr/>	<hr/>
Net cash from operating activities		(350.6)	235.8
		<hr/>	<hr/>
<i>Cash flows from investing activities</i>			
Dividends received		700.1	0.1
		<hr/>	<hr/>
Net cash from investing activities		700.1	0.1
		<hr/>	<hr/>
<i>Cash flows from financing activities</i>			
Proceeds from the issue of share capital		–	0.1
Repurchase of own shares		(316.3)	(217.5)
Purchase of own shares by ESOT		(24.8)	(14.9)
Proceeds from disposal of shares by ESOT		27.6	15.7
Interest paid		(27.9)	(20.8)
Interest received		11.7	5.3
Proceeds from issue of corporate bond		250.0	–
(Repayment)/proceeds of unsecured bank loans		(100.0)	100.0
Dividends paid		(103.9)	(103.7)
		<hr/>	<hr/>
Net cash from financing activities		(283.6)	(235.8)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		65.9	0.1
Opening cash and cash equivalents		0.8	0.7
		<hr/>	<hr/>
Closing cash and cash equivalents	40	66.7	0.8
		<hr/>	<hr/>

Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and in accordance with the Companies Act 1985.

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 property, plant and equipment 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, or useful life if shorter

Investments

Investments in subsidiary companies and 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 a non-financial 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 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). Where there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate.

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 (including the long term incentive plan), 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, based on tax rates that have been enacted or substantively enacted by the balance sheet date, 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.

Accounting Policies

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.

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, including Directory service charge, 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 foreign operations are translated at the rate of exchange ruling at the balance sheet date. Income and expense items of foreign operations are translated at the weighted average rate during the period. Differences on translation are recognised as a separate equity reserve which was deemed to be zero on transition to IFRS at 1 February 2004. On disposal of a foreign operation, 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 operation 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 derivatives 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.

Accounting Policies

The Group uses interest rate derivatives as fair value hedges of the interest rate risk associated with the Company's 2013 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.

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

Actuarial gains and losses are recognised in full in the period in which they occur, 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 in the income statement 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.

Accounting Policies

Rentals payable under operating leases are charged to income on a straight line basis over the period of the lease. Contingent rentals payable based on store revenues are accrued in line with the related sales.

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*, and the amendment to IAS 1 *Presentation of Financial Statements* which will both become mandatory for accounting periods beginning on or after 1 January 2007. The new disclosures will therefore be adopted in the Group's financial statements from the year ending January 2008.

The Group has not adopted early the disclosure requirements of IAS 8 *Operating Segments* which is effective for annual periods beginning on or after 1 January 2009 and will therefore be adopted in the Group's financial statements from the year ending January 2010.

Notes to the Consolidated 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	
	2007	2006	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m	£m	£m
NEXT Retail	2,255.0	2,216.8	–	–	2,255.0	2,216.8	316.6	329.1
NEXT Directory	774.5	685.0	–	–	774.5	685.0	143.9	96.9
NEXT Brand	3,029.5	2,901.8	–	–	3,029.5	2,901.8	460.5	426.0
NEXT Sourcing	6.4	8.7	618.0	667.7	624.4	676.4	31.8	32.9
Ventura	190.9	149.2	6.5	4.9	197.4	154.1	20.6	13.6
Other	57.0	46.5	151.7	131.4	208.7	177.9	(5.4)	(1.8)
Eliminations	–	–	(776.2)	(804.0)	(776.2)	(804.0)	–	–
	3,283.8	3,106.2	–	–	3,283.8	3,106.2	507.5	470.7

As NEXT Directory has continued to grow faster than NEXT Retail, the allocation of costs between the two businesses has been revised. NEXT Directory has not previously received a charge for the customer collection and return services provided in store, nor for preparation of Sale stock moved into NEXT Retail. This year NEXT Retail has charged £14.1m to NEXT Directory. In order to facilitate comparisons, prior year operating profit has been adjusted by the comparable figure of £9.2m. There is no change to the total NEXT Brand profit as a consequence.

Significant non-cash items in the Other segment operating profit include share option charges of £8.3m (2006: £8.1m) and unrealised foreign exchange losses of £2.0m (2006: gains of £2.1m).

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	
	2007	2006	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m	£m	£m
NEXT Retail	2,740.5	2,904.8	2,977.5	3,027.2	130.7	164.2	93.6	73.7
NEXT Directory	1,187.3	1,121.1	836.1	672.7	0.6	1.0	1.2	1.1
NEXT Brand	3,927.8	4,025.9	3,813.6	3,699.9	131.3	165.2	94.8	74.8
NEXT Sourcing	130.3	206.1	62.8	61.2	1.7	3.0	1.7	1.7
Ventura	110.5	112.2	96.5	67.2	6.5	10.9	5.5	4.4
Other	7,623.6	7,272.4	2,359.2	2,333.2	0.6	0.1	0.3	0.3
Eliminations	(10,221.2)	(10,142.7)	(4,950.4)	(4,943.8)	–	–	–	–
	1,571.0	1,473.9	1,381.7	1,217.7	140.1	179.2	102.3	81.2

Other segment assets include subsidiary investments of £2,642.1m (2006: £2,641.8m), intra-group balances of £4,708.0m (2006: £4,440.7m), and other assets held centrally of £273.5m (2006: £189.9m).

Notes to the Consolidated Financial Statements

1. Segmental analysis (continued)

Other segment liabilities include intra-group balances of £1,454.9m (2006: £1,521.4m), group borrowings of £593.9m (2006: £447.2m) and other liabilities of £310.4m (2006: £364.6m) which cannot be attributed to reportable segments on a reasonable basis.

All intra-group assets and liabilities are eliminated on consolidation.

By Geographical Location

	External revenue		Capital expenditure		Assets	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
United Kingdom	3,125.8	2,974.2	138.3	155.5	1,487.6	1,377.0
Rest of Europe	120.4	101.8	–	16.0	26.8	31.3
Middle East	26.4	20.3	0.2	0.5	2.8	4.3
Asia	11.2	9.9	1.6	7.2	51.2	53.5
	<u>3,283.8</u>	<u>3,106.2</u>	<u>140.1</u>	<u>179.2</u>	<u>1,568.4</u>	<u>1,466.1</u>
UK deferred tax					2.6	7.8
					<u>1,571.0</u>	<u>1,473.9</u>

2. Revenue and trading profit

	2007	2006
	£m	£m
Sale of goods	2,978.7	2,832.7
Rendering of services	291.6	260.2
Rental income	6.9	7.3
Royalties	6.6	6.0
Revenue	<u>3,283.8</u>	<u>3,106.2</u>
Cost of sales	(2,372.3)	(2,240.7)
Distribution costs	(222.8)	(232.2)
Administrative expenses	(182.6)	(164.4)
Trading profit	<u>506.1</u>	<u>468.9</u>

Rendering of services includes £98.1m (2006: £76.7m) of service charge on Directory customer receivables.

Notes to the Consolidated Financial Statements

3. Operating profit

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

	2007 £m	2006 £m
Depreciation on assets:		
Owned	101.8	81.0
Leased	0.5	0.2
Loss/(profit) on disposal of property, plant & equipment	2.9	(0.2)
Operating lease rentals:		
Minimum lease payments	154.2	131.3
Contingent rentals payable	8.6	10.2
Net foreign exchange losses/(gains)	2.7	(1.0)
Cost of inventories recognised as an expense	1,858.2	1,867.7
Write down of inventories to net realisable value	110.0	146.5
Impairment of trade receivables	51.2	41.1
	2007	2006
	£000	£000
<i>Auditors' remuneration</i>		
Audit services – group	138	111
Other services:		
Subsidiary statutory audit	332	368
Tax	26	88
Corporate finance	12	–
Other	47	39
	<u>555</u>	<u>606</u>

Notes to the Consolidated Financial Statements

4. Staff costs and key management personnel

Total staff costs were as follows:

	2007	2006
	£m	£m
Wages and salaries	570.5	522.1
Social security costs	41.1	37.7
Other pension costs	14.1	18.7
	<u>625.7</u>	<u>578.5</u>
Share based payments expense		
Equity settled	8.3	8.1
Cash settled	5.7	5.5
	<u>639.7</u>	<u>592.1</u>

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

	2007	2006
	£m	£m
NEXT Brand	470.5	451.1
NEXT Sourcing	27.5	26.5
Ventura	132.3	99.4
Other activities	9.4	15.1
	<u>639.7</u>	<u>592.1</u>

	Average employees		Full time equivalents	
	2007	2006	2007	2006
	Number	Number	Number	Number
NEXT Brand	48,746	45,360	26,262	25,536
NEXT Sourcing	3,725	3,596	3,725	3,596
Ventura	9,790	8,447	9,118	7,821
Other activities	53	51	50	46
	<u>62,314</u>	<u>57,454</u>	<u>39,155</u>	<u>36,999</u>

Aggregate compensation for key management personnel, being the directors of NEXT plc, was as follows:

	2007	2006
	£m	£m
Short term employee benefits	3.6	2.8
Post-employment benefits	1.0	0.8
Share based payments	2.3	2.0
	<u>6.9</u>	<u>5.6</u>

Directors' remuneration is detailed in the Remuneration Report on pages 24 to 32.

Notes to the Consolidated Financial Statements

5. Finance income and costs

	2007	2006
	£m	£m
Interest on bank deposits	1.6	0.3
Other interest receivable	2.4	0.8
	<hr/>	<hr/>
Total finance income	4.0	1.1
	<hr/>	<hr/>
Interest on bank loans and overdrafts	0.2	0.3
Interest on other loans	32.7	21.3
Interest on obligations under finance leases	0.1	0.1
	<hr/>	<hr/>
	33.0	21.7
Unrealised loss/(profit) on interest rate swaps	14.6	(4.5)
Fair value adjustment to bond hedged by interest rate swaps	(14.5)	5.5
	<hr/>	<hr/>
Total finance costs	33.1	22.7
	<hr/>	<hr/>

6. Taxation

	2007	2006
	£m	£m
Current tax:		
UK corporation tax on profits of the year	168.1	127.8
Adjustments in respect of previous years	(12.0)	(17.7)
	<hr/>	<hr/>
	156.1	110.1
Overseas tax	3.5	3.5
	<hr/>	<hr/>
Total current tax	159.6	113.6
Deferred tax:		
Origination and reversal of temporary differences	(12.7)	22.0
	<hr/>	<hr/>
Tax expense reported in the consolidated income statement	146.9	135.6
	<hr/>	<hr/>

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:

	2007	2006
	%	%
UK corporation tax rate	30.0	30.0
Expenses not deductible for taxation purposes	2.6	2.6
Overseas tax differentials	0.6	1.2
Tax over-provided in previous years	(2.5)	(3.7)
Other	–	0.1
	<hr/>	<hr/>
Effective total tax rate on profit before taxation	30.7	30.2
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements

6. Taxation (continued)

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

	2007 £m	2006 £m
Current tax:		
Share based payments	(8.3)	(3.6)
Foreign exchange gains	2.2	–
Retirement benefit obligation	(10.9)	(3.5)
Deferred tax:		
Share based payments	3.4	1.6
Retirement benefit obligation	20.6	(6.9)
Fair value movements on derivative instruments	(6.1)	2.0
	<hr/>	<hr/>
Tax charge/(credit) in the statement of recognised income and expense	0.9	(10.4)
	<hr/>	<hr/>

Deferred taxation

	2007 £m	2006 £m
Accelerated capital allowances	36.0	33.1
Revaluation of derivatives to fair value	(6.8)	(0.1)
Retirement benefit obligations	(14.1)	(34.7)
Share based payments	(10.1)	(11.0)
Unremitted earnings of overseas subsidiaries	–	12.7
Other temporary differences	(7.6)	(7.8)
	<hr/>	<hr/>
	(2.6)	(7.8)
	<hr/>	<hr/>

The movement in the year is as follows:

	2007 £m	2006 £m
At January 2006	(7.8)	(26.5)
Charged to the income statement		
Accelerated capital allowances	2.9	7.2
Revaluation of derivatives to fair value	(0.6)	0.4
Share based payments	(2.5)	(2.5)
Retirement benefit obligations	–	0.1
Unremitted earnings of overseas subsidiaries	(12.7)	12.7
Other temporary differences	0.2	4.1
Recognised directly in equity	17.9	(3.3)
	<hr/>	<hr/>
At January 2007	(2.6)	(7.8)
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements

6. Taxation (continued)

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

	Gross value 2007 £m	Unrecognised deferred tax 2007 £m	Gross value 2006 £m	Unrecognised deferred tax 2006 £m
Property development trading losses	3.7	1.1	3.9	1.2
Capital losses	97.1	29.1	97.8	29.3
	100.8	30.2	101.7	30.5

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

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 28 January 2006 of 30p (2005: 28p) per share	69.5	70.8
Interim dividend for the year ended 27 January 2007 of 15.5p (2006: 14p) per share	34.1	33.6
	103.6	104.4
Proposed final dividend for the year ended 27 January 2007 of 33.5p (2006 : 30p) per share	73.9	71.4

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 basic earnings per share is based on £331.5m (2006: £313.5m) being the profit for the year after taxation and 226.9m ordinary shares of 10p each (2006: 246.2m), 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 £331.5m (2006: £313.5m) being the profit for the year after taxation and 229.7m ordinary shares of 10p each (2006: 249.1m) being the weighted average number of shares used for the calculation of basic earnings per share above increased by the dilutive effect of potential ordinary shares from employee share option schemes of 2.8m shares (2006: 2.9m).

As at 20 March 2007 73,918 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 Consolidated Financial Statements

9. Property, plant & equipment

	Freehold Property £m	Leasehold Property £m	Plant and Fittings £m	Total £m
Cost				
At January 2005	76.3	10.6	642.6	729.5
Exchange movement	–	–	0.4	0.4
Additions	–	–	179.2	179.2
Disposals	(5.0)	–	(20.1)	(25.1)
At January 2006	71.3	10.6	802.1	884.0
Exchange movement	–	–	(1.7)	(1.7)
Additions	0.2	–	139.9	140.1
Transfers	1.3	–	(1.3)	–
Disposals	–	(2.3)	(12.8)	(15.1)
At January 2007	72.8	8.3	926.2	1,007.3
Depreciation				
At January 2005	8.8	1.5	295.2	305.5
Exchange movement	–	–	0.1	0.1
Provided during the year	–	–	81.2	81.2
Disposals	(0.6)	–	(16.3)	(16.9)
At January 2006	8.2	1.5	360.2	369.9
Exchange movement	–	–	(0.5)	(0.5)
Provided during the year	–	–	102.3	102.3
Transfers	0.1	–	(0.1)	–
Disposals	–	(0.1)	(8.7)	(8.8)
At January 2007	8.3	1.4	453.2	462.9
Carrying amount				
At January 2007	64.5	6.9	473.0	544.4
At January 2006	63.1	9.1	441.9	514.1
At January 2005	67.5	9.1	347.4	424.0

The carrying amount of plant and fittings above includes an amount of £2.0m (2006: £2.6m) in respect of assets held under finance lease contracts.

At 27 January 2007 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £43.2m (2006: £22.5m).

Notes to the Consolidated Financial Statements

10. Intangible assets: goodwill

	£m
<i>Carrying amount</i>	
At January 2007, January 2006 and January 2005	36.2

Goodwill relates entirely to NEXT Sourcing and is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 27 January 2007 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 (2006: four) further years with no subsequent growth assumed, and discounted at 6.5% (2006: 5.25%).

In the year ended January 2007, NEXT Sourcing generated an operating profit before interest of £31.8m (2006: £32.9m).

11. Interests in associates

Aggregated amounts relating to associates:

	2007	2006
	£m	£m
Share of associates' revenues and profits:		
Revenue	30.3	29.2
Profit	1.4	1.8
Share of associates' net assets:		
Total assets	8.4	8.1
Total liabilities	(6.2)	(6.3)
Carrying amount of investment	<u>2.2</u>	<u>1.8</u>

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

	Sales		Amounts receivable	
	2007	2006	2007	2006
	£m	£m	£m	£m
Choice Discount Stores Limited	4.3	4.3	0.5	1.2
Cotton Traders Limited	0.1	4.1	1.1	0.2
	<u>4.4</u>	<u>8.4</u>	<u>1.6</u>	<u>1.4</u>

12. Other investments

	2007	2006
	£m	£m
Other investments available for sale	<u>1.0</u>	<u>1.0</u>

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.

Notes to the Consolidated Financial Statements

13. Inventories

	2007	2006
	£m	£m
Raw materials and work in progress	5.0	6.9
Finished goods	270.9	311.1
	<u>275.9</u>	<u>318.0</u>
Property development stocks	5.9	5.9
	<u>281.8</u>	<u>323.9</u>

14. Trade and other receivables

	2007	2006
	£m	£m
Trade and customer debtors	468.5	415.4
Amounts due from associated undertakings	1.6	1.4
Other debtors	15.2	12.2
Prepayments	92.4	84.8
	<u>577.7</u>	<u>513.8</u>

Trade and customer debtors above include £1.1m (2006: £1.5m) falling due after more than one year. Directory customer receivables bear interest at a variable annual percentage rate of 26.49% (2006: 26.49%).

15. Other financial assets

	2007		2006	
	Current £m	Non-current £m	Current £m	Non-current £m
Foreign exchange contracts	1.2	–	4.1	–
Warrants	–	2.2	–	1.4
	<u>1.2</u>	<u>2.2</u>	<u>4.1</u>	<u>1.4</u>

Foreign exchange contracts comprise forward contracts and options which are used to hedge exchange risk arising from the Group's overseas purchases (Note 31). The instruments purchased are denominated in US dollars and Euros. The warrants are listed instruments purchased as part of the 2005 risk/reward plan, as detailed in the Remuneration Report.

16. Cash and short term deposits

	2007	2006
	£m	£m
Cash at bank and in hand	55.1	69.8
Short term deposits	66.6	–
	<u>121.7</u>	<u>69.8</u>

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.

Notes to the Consolidated Financial Statements

17. Bank loans and overdrafts

	2007	2006
	£m	£m
Bank overdrafts and overnight borrowings	12.5	31.4
Unsecured bank loans	0.1	100.3
	<u>12.6</u>	<u>131.7</u>

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 in 2006 included £100.0m drawn by the Company under a medium term bank revolving credit facility committed until September 2009 (Note 18).

At 27 January 2007 the Group had given indemnities of £13.0m (2006: £13.0m) 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 27 January 2007 in respect of which all conditions precedent have been met were as follows:

	2007	2006
	£m	£m
Expiring in more than two years, but not more than five years	<u>450.0</u>	<u>450.0</u>

None of this facility was drawn down at 27 January 2007 (2006: £100.0m).

19. Trade and other payables

	2007	2006
	£m	£m
Trade payables	174.3	173.4
Obligations under finance leases	0.5	0.5
Other taxation and social security	65.5	61.8
Share based payment liability	4.5	4.9
Other creditors and accruals	376.3	328.2
	<u>621.1</u>	<u>568.8</u>

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

20. Other financial liabilities

	2007		2006	
	Current £m	Non-current £m	Current £m	Non-current £m
Foreign exchange contracts	23.6	–	1.8	–
Interest rate swaps	–	19.2	–	4.5
	<u>23.6</u>	<u>19.2</u>	<u>1.8</u>	<u>4.5</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 2013 corporate bond, see Notes 21 and 31.

Notes to the Consolidated Financial Statements

21. Corporate bonds

	2007	2006
	£m	£m
Corporate bond repayable 2013	281.2	298.1
Corporate bond repayable 2016	250.0	–
	<u>531.2</u>	<u>298.1</u>

The 2013 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 part of the associated fair value interest rate risk (Note 31), and its carrying value in the balance sheet is adjusted accordingly. The resulting effective interest rates payable on the bond are as follows:

		2007	2006
		£m	£m
Effective interest rate	Repricing		
LIBOR + 0.9%	September 2013	200.0	150.0
4.7%	September 2006	–	50.0
4.8%	September 2007	50.0	50.0
4.9%	September 2008	50.0	50.0
		<u>300.0</u>	<u>300.0</u>

The 2016 corporate bond was issued in October 2006, has a face value of £250m and carries a fixed coupon of 5.875%.

22. Obligations under finance leases

	2007	2006
	£m	£m
Future minimum payments due :		
Within one year	0.6	0.6
In two to five years	1.4	1.7
Over five years	0.6	0.6
	<u>2.6</u>	<u>2.9</u>
Less: finance charges allocated to future periods	(0.3)	(0.3)
Present value of minimum lease payments	<u>2.3</u>	<u>2.6</u>

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

Within one year	0.5	0.5
In two to five years	1.3	1.5
Over five years	0.5	0.6
	<u>2.3</u>	<u>2.6</u>

The Group uses finance leases to acquire certain plant and machinery. Obligations under finance leases carry interest at an average effective rate of 4.0% (2006: 3.8%).

Notes to the Consolidated Financial Statements

23. Retirement benefit plans

The Group operates a pension plan 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, prior to 1 October 2006, annual performance bonuses. From 1 October 2006, sales and profit related bonuses ceased to be part of pensionable earnings. The defined benefit section was closed to new members from October 2000. The defined contribution section is for all members who joined from October 2000 and benefits are based on each individual member's personal account. The plan has equal pension rights with respect to members of either sex and complies with the Employment Equality Regulations (2006). The assets of the plan are held in a separate trustee administered fund. The Group also provides further, unfunded retirement benefits to plan members whose benefits would otherwise be restricted by the lifetime allowance.

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

	2007			2006		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Current service cost	15.7	0.5	16.2	14.5	0.7	15.2
Past service cost	(4.3)	–	(4.3)	–	–	–
Interest cost on benefit obligation	19.3	0.4	19.7	16.6	0.4	17.0
Expected return on plan assets	(20.1)	–	(20.1)	(16.0)	–	(16.0)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net benefit expense recognised in administration expenses	10.6	0.9	11.5	15.1	1.1	16.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Actual return on plan assets	25.5	–	25.5	53.6	–	53.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

	2007			2006		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening position	417.4	11.2	428.6	320.7	7.3	328.0
Current service cost	15.7	0.5	16.2	14.5	0.7	15.2
Past service cost	(4.3)	–	(4.3)	–	–	–
Interest cost	19.3	0.4	19.7	16.6	0.4	17.0
Employee contributions	2.9	–	2.9	3.1	–	3.1
Benefits paid	(8.6)	–	(8.6)	(7.1)	–	(7.1)
Transfer of liabilities	5.8	(5.8)	–	–	–	–
Actuarial (gains)/losses	(26.5)	(0.6)	(27.1)	69.6	2.8	72.4
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Closing retirement benefit obligation	421.7	5.7	427.4	417.4	11.2	428.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Consolidated Financial Statements

23. Retirement benefit plans (continued)

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

	2007			2006		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening position	313.0	–	313.0	235.4	–	235.4
Employer contributions	47.6	–	47.6	28.0	–	28.0
Employee contributions	2.9	–	2.9	3.1	–	3.1
Benefits paid	(8.6)	–	(8.6)	(7.1)	–	(7.1)
Expected return on assets	20.1	–	20.1	16.0	–	16.0
Actuarial gains	5.4	–	5.4	37.6	–	37.6
Closing position	<u>380.4</u>	<u>–</u>	<u>380.4</u>	<u>313.0</u>	<u>–</u>	<u>313.0</u>

The fair value of plan assets was as follows:

	2007		2006	
	£m	%	£m	%
Equities	235.7	62.0	217.2	69.4
Bonds	89.2	23.4	80.1	25.6
Property	15.7	4.1	13.5	4.3
Other	39.8	10.5	2.2	0.7
	<u>380.4</u>	<u>100.0</u>	<u>313.0</u>	<u>100.0</u>

The net retirement benefit obligation is analysed as follows:

	2007			2006		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Total assets	380.4	–	380.4	313.0	–	313.0
Benefit obligation	(421.7)	(5.7)	(427.4)	(417.4)	(11.2)	(428.6)
Net retirement benefit obligation	<u>(41.3)</u>	<u>(5.7)</u>	<u>(47.0)</u>	<u>(104.4)</u>	<u>(11.2)</u>	<u>(115.6)</u>

Notes to the Consolidated Financial Statements

23. Retirement benefit plans (continued)

The actuarial valuation of the defined benefit section was undertaken by an independent qualified actuary as at 27 January 2007 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

	2007	2006
Discount rate	5.30%	4.65%
Salary increases	4.50%	4.35%
Inflation	3.00%	2.85%
Pension increases	3.00%	2.85%
Expected rate of return on assets		
Equities	6.55%	6.70%
Bonds	5.05%	4.40%
Property	6.30%	6.45%
Other	4.25%	4.10%
Average	5.95%	6.08%
Life expectancy at age 65 (years)		
Pensioner aged 65 – male	22.7	22.6
Pensioner aged 65 – female	24.7	24.6
Non-pensioner aged 40 – male	24.1	24.0
Non-pensioner aged 40 – female	26.0	25.9

Expected rates of return on plan assets are based on external historical and forecast market information.

Pension contributions for the Group will continue to be set at a level that takes account of the past service funding position of the plan. From 1 August 2005 the Group increased employer contributions from 15.5% to 17.5%. Total employer contributions of £49.4m (2006: £29.6m) were made during the year, including £32.5m (2006: £17.5m) in respect of the deficit on the defined benefit section and contributions of £1.8m (2006: £1.6m) in respect of the defined contribution section. The Group is committed to making further contributions in respect of the deficit on the defined benefit section totalling £50m over the next four years.

At the year end, outstanding contributions to the defined contribution section included in other creditors were £0.3m (2006: £0.3m).

History of experience gains and losses:

	2007	2006	2005
	£m	£m	£m
Fair value of plan assets	380.4	313.0	235.4
Present value of defined benefit obligation	(427.4)	(428.6)	(328.0)
Deficit in the plan	(47.0)	(115.6)	(92.6)
Experience (losses)/gains arising on plan liabilities	(16.9)	9.6	5.7
Experience gains arising on plan assets	5.4	37.6	4.8

Cumulative actuarial losses recognised in the statement of total recognised income and expense at January 2007 were £12.8m (2006: losses of £45.3m).

Notes to the Consolidated Financial Statements

24. Provisions

	Vacant property costs £m
At January 2006	10.0
Additional provision in the year	5.8
Utilisation of provision	(1.7)
Release of provision	(4.6)
	<hr/>
At January 2007	9.5

Provision is made 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 seven (2006: nine) years.

25. Other non-current liabilities

	2007 £m	2006 £m
Obligations under finance leases	1.8	2.1
Share based payment liability	7.6	5.8
Other creditors and accruals	26.9	26.1
	<hr/>	<hr/>
	36.3	34.0

26. Share capital

	2007 '000	2006 '000	2007 £m	2006 £m
Authorised				
Ordinary shares of 10p each	400,500	400,500	40.1	40.1
Allotted, called up and fully paid				
Ordinary shares of 10p each				
At January 2006	246,100	261,103	24.6	26.1
Issued	–	8	–	–
Purchased for cancellation	(19,046)	(15,011)	(1.9)	(1.5)
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2007	227,054	246,100	22.7	24.6

During the year the Company purchased for cancellation 14,746,199 (2006: 9,060,984) of its own ordinary shares of 10p each in the open market at a cost of £246.3m (2006: £126.9m). The Company also purchased for cancellation 4,300,000 (2006: 5,950,000) of its own ordinary shares of 10p each under off-market contingent purchase contracts at a cost of £70.0m (2006: £90.6m).

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

The Company was not party to any off-market contingent purchase contracts for the purchase of its own shares at 27 January 2007 or 28 January 2006.

Notes to the Consolidated 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
At January 2005	26.1	0.6	3.8	(93.3)	–	0.6	(1,439.5)	1,778.2	276.5
Adoption of IAS 32 & 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)
At January 2006	24.6	0.7	5.3	(89.3)	2.8	3.0	(1,441.7)	1,750.8	256.2
Total recognised income and expense for the year	–	–	–	–	(22.7)	(1.0)	–	365.4	341.7
Shares purchased for cancellation	(1.9)	–	1.9	–	–	–	–	(316.3)	(316.3)
Shares purchased by ESOT	–	–	–	(24.8)	–	–	–	–	(24.8)
Shares issued by ESOT	–	–	–	37.2	–	–	–	(9.4)	27.8
Share option charge	–	–	–	–	–	–	–	8.3	8.3
Realised property profits	–	–	–	–	–	–	(2.0)	2.0	–
Equity dividends paid	–	–	–	–	–	–	–	(103.6)	(103.6)
At January 2007	22.7	0.7	7.2	(76.9)	(19.9)	2.0	(1,443.7)	1,697.2	189.3

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 (£5.2m; 2006 £7.2m).

28. Equity settled share based payments

The Remuneration Report on pages 24 to 32 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.

	2007		2006	
	Options (No.)	Weighted average exercise price (p)	Options (No.)	Weighted average exercise price (p)
Outstanding at beginning of period	10,566,843	1128	9,734,045	997
Granted during the period	3,018,893	1588	3,293,498	1380
Forfeited during the period	(1,125,816)	1302	(691,508)	1124
Exercised during the period	(3,229,179)	857	(1,769,192)	886
Outstanding at the end of the period	9,230,741	1352	10,566,843	1128
Exercisable at the end of the period	885,968	859	1,073,539	863

Notes to the Consolidated Financial Statements

28. Equity settled share based payments (continued)

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was 1726p (2006: 1563p). Options outstanding at 27 January 2007 are exercisable at prices ranging between 452p and 1620p (2006: 358p – 1495p), and have a weighted average remaining contractual life of 6.1 years (2006: 5.8 years), further analysed in the table below:

	2007		2006	
	No. of options outstanding	Weighted average remaining contractual life (years)	No. of options outstanding	Weighted average remaining contractual life (years)
Exercise price range				
358p – 543p	158,901	2.1	296,884	2.6
620p – 727p	413,217	1.8	1,395,616	1.4
889p – 920p	676,111	4.5	2,499,178	5.7
1058p – 1131p	1,019,804	3.4	1,467,961	4.6
1302p – 1347p	795,498	2.0	953,204	3.0
1412p – 1495p	3,379,500	7.8	3,954,000	8.8
1514p – 1620p	2,787,710	7.5	–	–
	9,230,741	6.1	10,566,843	5.8

Included in the above balances were 594,989 options (2006: 1,318,998) that were granted prior to 7 November 2002 and which have not been subsequently modified and are therefore not required to be recognised in accordance with IFRS 2.

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 28 January 2006 and 27 January 2007 based on information at the date of grant:

	2007	2006
Management share options		
Weighted average share price at date of grant (p)	1620	1494
Weighted average exercise price (p)	1620	1494
Volatility (%)	25.00	26.99
Expected life (years)	4.00	4.00
Risk free rate (%)	4.56	4.31
Dividend yield (%)	2.72	2.48
Weighted average fair value (£)	3.31	3.28
Sharesave plans		
Weighted average share price at date of grant (p)	1892	1295
Weighted average exercise price (p)	1514	1131
Volatility (%)	21.44	24.01
Expected life (years)	3.58	3.60
Risk free rate (%)	4.99	4.39
Dividend yield (%)	2.38	3.17
Weighted average fair value (£)	5.45	2.99

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.

Notes to the Consolidated Financial Statements

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 27 January 2007 the ESOT held 6,441,692 (2006: 8,185,173) ordinary shares of 10p each in the Company, the market value of which amounted to £125.4m (2006: £139.0m). 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 27 January 2007 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.

30. Financial instruments: fair values

The fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's balance sheet, other than as noted below:

	2007		2006	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Financial liabilities</i>				
Corporate bonds	531.2	538.3	298.1	302.2

The fair values of corporate bonds are their market values 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:

	2007 £m	2006 £m
Notional amount of outstanding foreign currency contracts	555.7	475.9

31. Financial instruments: treasury operations & hedging activities

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 corporate bonds and cash flow interest rate risk on floating rate bank loans and overdrafts. 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.

Notes to the Consolidated Financial Statements

31. Financial instruments: treasury operations & hedging activities (continued)

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, using 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.

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 foreign exchange derivatives are as follows:

	2007	2006
	£m	£m
Derivatives qualifying as hedging instruments under IAS 39	(19.9)	2.8
Other foreign exchange derivatives	(2.5)	(0.5)
Total foreign exchange derivatives	<u>(22.4)</u>	<u>2.3</u>

Fair value hedges

At 27 January 2007, the Group had interest rate swap agreements in place as fair value hedges of the interest rate risk associated with the Company's 2013 £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 are as follows:

	2007	2006
	£m	£m
Derivatives qualifying as hedging instruments under IAS 39	(19.4)	(4.5)
Other interest rate derivatives	0.2	–
Total interest rate derivatives	<u>(19.2)</u>	<u>(4.5)</u>

The fair values of foreign exchange and interest rate derivatives 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.

Notes to the Consolidated Financial Statements

32. Analysis of net debt

	January 2006 £m	Cash flow £m	Other non-cash changes £m	January 2007 £m
Cash and short term deposits	69.8			121.7
Overdrafts	(31.4)			(12.5)
Cash and cash equivalents	38.4	71.6	(0.8)	109.2
Unsecured bank loans	(100.3)	100.2	–	(0.1)
Corporate bonds	(298.1)	(250.0)	16.9	(531.2)
Fair value hedges of corporate bond	(4.5)	–	(14.9)	(19.4)
Finance leases	(2.6)	0.5	(0.2)	(2.3)
Total net debt	(367.1)	(77.7)	1.0	(443.8)

	January 2005 £m	Cash flow £m	Other non-cash changes £m	January 2006 £m
Cash and short term deposits	72.3			69.8
Overdrafts	(22.3)			(31.4)
Cash and cash equivalents	50.0	(12.0)	0.4	38.4
Unsecured bank loans	–	(100.3)	–	(100.3)
Corporate bond	(300.0)	–	1.9	(298.1)
Fair value hedges of corporate bond	–	–	(4.5)	(4.5)
Finance leases	(0.8)	0.2	(2.0)	(2.6)
Total net debt	(250.8)	(112.1)	(4.2)	(367.1)

33. Operating lease commitments

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

	2007 £m	2006 £m
Within one year	186.3	150.6
After one year but not more than five years	685.4	611.5
More than five years	1,230.7	1,152.6
	2,102.4	1,914.7

At 27 January 2007, future rentals receivable under non-cancellable sub-leases where the Group is the lessor were £26.2m (2006: £43.1m).

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 25 years. Contingent rentals are payable on certain retail store leases based on store revenues. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

Notes to the Parent Company Financial Statements

34. Profit after taxation

As permitted by Section 230 of the Companies Act 1985, the income statement of the Company is not presented as part of the financial statements. The profit after taxation dealt with in the accounts of the holding company was £685.5m (2006: loss of £11.9m)

35. Investments in subsidiaries

Details of the Company's subsidiaries are given in Group Companies on page 71.

36. Current and non-current assets

At the balance sheet date, trade and other receivables comprise £59.6m (2006: £nil) of amounts due from subsidiary undertakings and £3.8m (2006: £1.5m) of other debtors. The deferred tax asset of £0.1m (2006: £0.8m) relates to the revaluation of derivatives to their fair values.

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.

37. Current and non-current liabilities

Trade and other payables comprise £nil (2006: £292.9m) of amounts due to subsidiary undertakings and £10.0m (2006: £6.4m) 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.

38. 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 29 January 2005, 28 January 2006 and 27 January 2007.

Notes to the Parent Company Financial Statements

39. Reconciliation of movements in equity

	Retained earnings £m	Total equity £m
At January 2005	1,195.4	2,117.8
Adoption of IAS 32 & 39	(38.0)	(38.0)
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)
At January 2006	857.2	1,783.7
Total recognised income and expense for the year	687.1	687.1
Shares purchased for cancellation	(316.3)	(316.3)
Shares purchased by ESOT	–	(24.8)
Shares issued by ESOT	(9.4)	27.8
Equity dividends paid	(103.6)	(103.6)
At January 2007	1,115.0	2,053.9

40. Analysis of net debt

	January 2006 £m	Cash flow £m	Other non-cash changes £m	January 2007 £m
Cash and cash equivalents	0.8	65.9	–	66.7
Unsecured bank loans	(100.0)	100.0	–	–
Corporate bonds	(298.1)	(250.0)	16.9	(531.2)
Fair value hedges of corporate bond	(4.5)	–	(14.9)	(19.4)
Total net debt	(401.8)	(84.1)	2.0	(483.9)
	January 2005 £m	Cash flow £m	Other non-cash changes £m	January 2006 £m
Cash and cash equivalents	0.7	0.1	–	0.8
Unsecured bank loans	–	(100.0)	–	(100.0)
Corporate bond	(300.0)	–	1.9	(298.1)
Fair value hedges of corporate bond	–	–	(4.5)	(4.5)
Total net debt	(299.3)	(99.9)	(2.6)	(401.8)

Notes to the Parent Company Financial Statements

41. Related party transactions

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

	2007	2006
	£m	£m
Transactions with subsidiary undertakings:		
Recharge of costs	(195.1)	(338.4)
Funds (borrowed)/advanced	(163.3)	100.8
Dividends received	700.1	0.1
Interest receivable	10.8	5.7
Amounts due from/(to) subsidiary undertakings	59.6	(292.9)

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 27 January 2007. 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 ¹	Retailing of womenswear, menswear, childrenswear, home products, accessories and jewellery
NEXT Directory ²	Home shopping for womenswear, menswear, childrenswear, home products, accessories and jewellery
Club 24 Limited ¹	Customer and financial services management
Ventura ³	Customer and financial services management
First Retail Finance Limited ¹	Customer and financial services management
NEXT Sourcing Limited ¹	Overseas sourcing services (Hong Kong)
NEXT Manufacturing (Pvt) Limited ¹	Garment manufacture (Sri Lanka)
NEXT Distribution Limited ¹	Warehousing and distribution services

Associated undertakings

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

Half Year and Sector Analysis

Year ended January

	First half £m	Second half £m	2007 £m	First half £m	Second half £m	2006 £m
Revenue						
NEXT Retail	1,029.7	1,225.3	2,255.0	989.4	1,227.4	2,216.8
NEXT Directory	359.4	415.1	774.5	311.8	373.2	685.0
NEXT Franchise	22.0	27.8	49.8	16.5	22.7	39.2
NEXT Sourcing	2.9	3.5	6.4	5.3	3.4	8.7
Ventura	92.7	98.2	190.9	70.1	79.1	149.2
Other activities	3.8	3.4	7.2	3.7	3.6	7.3
	1,510.5	1,773.3	3,283.8	1,396.8	1,709.4	3,106.2
Profit before tax						
NEXT Retail*	111.1	205.5	316.6	120.6	208.5	329.1
NEXT Directory*	59.6	84.3	143.9	41.3	55.6	96.9
NEXT Franchise	2.5	3.5	6.0	3.3	4.6	7.9
NEXT Sourcing	15.6	16.2	31.8	13.6	19.3	32.9
Ventura	9.7	10.9	20.6	3.7	9.9	13.6
Other activities	(6.8)	(4.6)	(11.4)	(1.3)	(8.4)	(9.7)
	191.7	315.8	507.5	181.2	289.5	470.7
Profit before interest						
Net interest payable	(12.8)	(16.3)	(29.1)	(8.6)	(13.0)	(21.6)
	178.9	299.5	478.4	172.6	276.5	449.1

*As explained in Note 1 to the financial statements, the basis of allocating costs between NEXT Retail and NEXT Directory changed during the current year. Costs reallocated from NEXT Retail to NEXT Directory were £7.2m in the first half and £6.9m in the second half. To facilitate comparisons, prior year profit before tax has been adjusted by £4.3m in the first half and £4.9m in the second half. There is no change to the total NEXT Brand profit as a consequence.

Five Year History

Year ended January

	2007	2006	2005	2004	2003
	£m	£m	£m	£m	£m
	IFRS	IFRS	IFRS	UK GAAP	UK GAAP
Revenue	3,283.8	3,106.2	2,858.5	2,516.0	2,202.6
Operating profit	507.5	470.7	442.5	375.5	301.5
Net interest payable	(29.1)	(21.6)	(18.2)	(17.3)	(0.3)
Profit before taxation	478.4	449.1	424.3	358.2	301.2
Taxation	(146.9)	(135.6)	(118.9)	(108.1)	(90.7)
Profit after taxation	331.5	313.5	305.4	250.1	210.5
Total equity	189.3	256.2	276.5	155.1	275.1
Shares purchased for cancellation	19.0m	15.0m	4.0m	21.7m	43.9m
Dividend per share	49.0p	44.0p	41.0p	35.0p	31.0p
Earnings per share	146.1p	127.4p	120.2p	93.9p	68.7p

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 Belmont House Hotel, De Montfort Street, Leicester LE1 7GR on Wednesday 16 May 2007 at 11.00 a.m. at which the following resolutions will be proposed; resolutions 1 to 9 and 15 as Ordinary Resolutions and 10 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 27 January 2007.
- 2 To approve the remuneration report for the period ended 27 January 2007.
- 3 To declare a final dividend of 33.5p per share in respect of the period ended 27 January 2007.
- 4 To re-elect David Keens as a director who retires by rotation according to Article 91.
- 5 To re-elect Nick Brookes as a director who retires by rotation according to Article 91.
- 6 To re-elect Derek Netherton as a director who has served on the Board for more than nine years and, in accordance with the Combined Code, is subject to annual re-election.
- 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 19 of the Annual Report.

Special business

To consider and, if thought fit, pass the following resolutions, of which resolutions 8, 9 and 15 will be proposed as Ordinary Resolutions and resolutions 10 to 14 as Special Resolutions.

8 NEXT Risk/Reward Investment Plan

That the NEXT Risk/Reward Investment Plan (the "Plan"), the main features of which are described in Appendix 1 on pages 77 to 78, 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 2008.

9 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 £7,400,000 such authority to expire at the date of the Company's Annual General Meeting in 2008, 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).

Notice of Meeting

10 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 9 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 £1,100,000 being less than 5% of the issued ordinary share capital outstanding at 20 March 2007 and shall expire at the date of the Company's Annual General Meeting in 2008, 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.

11 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 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 34,000,000 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 12 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% 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 2008; and
- (v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority.

Notice of Meeting

12 **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, Deutsche Bank AG and Barclays Bank plc (in the form produced to this meeting and initialled by the Chairman for the purpose of identification) (the "Programme Agreements") be and are hereby approved and the Company be and is hereby authorised to enter into the Programme Agreements and all and any contingent forward trades which may be effected or made from time to time under or pursuant to the Programme Agreements for the contingent off-market purchase by the Company of its ordinary shares of 10 pence each for cancellation, as more fully described in Appendix 2 on pages 78 to 80 (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 2008, 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 11 above.

13 **Deletion of Article 101 which requires directors to retire when they reach the age 70**

That with effect from the passing of this resolution the Articles of Association of the Company be amended by the deletion of existing Article 101 and that the remaining Articles be renumbered accordingly.

14 **Changes to the Articles to facilitate communications with shareholders using electronic means**

That with effect from the passing of this resolution the Articles of Association of the Company are amended as follows:

- by deleting Articles 49, 130, 131 and 136 and replacing them with new Articles as contained in Appendix 3 on pages 80 to 82.
- by making consequential changes to Articles 1 (Interpretation), 41 (Disclosure of Interests), 72, 73, 76, 100 and 133 as set out in the document produced to the Meeting (and signed by the Chairman for the purpose of identification).

15 **Authority to communicate with shareholders using electronic means**

That the Company be authorised to send all documents, notices and information by electronic means (as such term is defined in the Financial Services Authority's Disclosure and Transparency Rules) including by means of a website and in all electronic forms.

By order of the Board.

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

11 April 2007

Notice of Meeting

APPENDIX 1

FURTHER INFORMATION ON RESOLUTION 8: NEXT RISK/REWARD INVESTMENT PLAN (the "Plan")

Shareholders' approval is sought for the Company to offer its key executives an opportunity to participate in a risk/reward investment plan. Similar plans were implemented in July 2004 and July 2005, details of which are on page 26 of the Remuneration Report. 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 plans that shareholders approved at an EGM in July 2005 and at the 2006 Annual General Meeting ("AGM") 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. 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 ESOT 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 incentivise 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, BNP Paribas Arbitrage Issuance BV or Barclays Bank plc. 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 NEXT's share price does not reach the minimum level.

As with previous plans, the Remuneration Committee believes that targets for the 2007 investments will be extremely challenging for the retail industry in the current economic environment. Participants will be 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, when the average share price was less than £15.00), 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.

It is proposed that the total cost to NEXT of the Plan in 2007 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 AGM in 2008 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 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.

Notice of Meeting

Based on a share price of £21.00 and current market conditions, a target price range as for the 2007 investments would be approximately £26.00 to £31.50. 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 £26.00 is achieved in the four year investment period, representing an increase in shareholder value of at least £1.1 billion, the executives would lose all of their investments. If the Final Share Price reaches £31.50, the increase in shareholder value would be around £2.4 billion, whilst executives would receive the maximum return of approximately 11 times their personal investment. Against a share price of around £21.00 and market capitalisation of £4.8 billion, the Board believes that, in conjunction with LTIP incentives, implementation of the Plan in 2007 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 2008 AGM.

APPENDIX 2

FURTHER INFORMATION ON RESOLUTION 12: CONTINGENT PURCHASE CONTRACTS

By virtue of special resolution number 12 passed at the Company's Annual General Meeting ("AGM") on 17 May 2006 shareholder authority was given to the Company to make on-market purchases of shares for cancellation. This authority was limited to a maximum of 36 million shares and expires on the earlier of the date of the AGM held in 2007 or 17 August 2007. 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 2007 or 17 August 2007. Since the granting of those authorities, the Company has bought back 16,960,235 shares for cancellation, representing 6.9% of its issued share capital at 28 January 2006, at a total cost £281.6 million. Of these purchases, 4,075,000 shares have been bought pursuant to contingent purchase contracts at a total cost of £66.5 million, a discount of £3.1 million to share prices prevailing when the relevant contract was entered into.

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.

Notice of Meeting

In order to achieve maximum flexibility in its share purchase activities, the Company is able to enter 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, and reducing the cost of share buybacks, is for the Company to enter into contingent forward purchase contracts outside of Close Periods. Pursuant to the authority granted at the 2006 AGM, the Company entered into agreements with 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 four 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 12, 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, Deutsche Bank AG and Barclays plc (the "Bank(s)"). A copy of each of the Programme Agreements will be available at the AGM on 16 May 2007. 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 during usual business hours until the date of the AGM and at the Meeting itself. The Programme Agreements will have a duration of the shorter of the period to the date of the AGM to be held in 2008 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 10 million, representing 4.4% of its issued share capital at 27 January 2007;
- the total cost of shares that the Company would be permitted to purchase pursuant to this authority may not exceed £200 million (including costs);
- the Forward Price may not exceed 105% of the average middle market closing price of the Company's shares as derived from the Official List of the London Stock Exchange for the five days immediately preceding the day on which the Contingent Forward Trade was effected;
- the Forward Price will be no more than 99% of the share price at the time the Contingent Forward Trade was effected;
- the minimum price that can be paid for any share is £0.10; and
- only one Contingent Forward Trade will be entered into on any particular day.

Notice of Meeting

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 16 May 2007 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 2008 or on 16 August 2008, 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 20 March 2007 was 9,140,181. This represents 4.0% 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 20 March 2007 would represent 4.7% of the reduced issued share capital.

APPENDIX 3

FINAL TEXT OF ARTICLES AMENDED TO FACILITATE COMMUNICATIONS WITH SHAREHOLDERS USING ELECTRONIC MEANS

Article 49

- (1) Subject to the provisions of the Statutes, an annual general meeting and an extraordinary general meeting called for the passing of a special resolution shall be called by at least twenty-one clear days' notice, and all other extraordinary general meetings shall be called by at least fourteen clear days' notice. Notice of every general meeting shall be given in the manner referred to in this Article 49. The notice shall specify the place, the day and the time of meeting and the general nature of the business to be transacted, and in the case of an annual general meeting shall specify the meeting as such. Subject to the provisions of these Articles and to any rights or restrictions attached to any shares, notices shall be given to all members, to all persons entitled to a share in consequence of the death or bankruptcy of a member and to the directors and auditors of the Company.
- (2) For the purposes of this Article 49 a notice of meeting must be given in accordance with the 2006 Act, that is in hard copy form, electronic form or by means of a website.
- (3) Electronic Communication
 - (a) If notice of meeting is sent in electronic form the Company must have complied with all applicable regulatory requirements and the person entitled to receive such notice must have agreed that the notice can be sent to him in that way and not revoked that agreement or, in the case of a company, be deemed to have agreed to receive notice in that way by a provision in the Statutes.
 - (b) The notice must be sent to the address specified by the person entitled to receive such notice or in the case of notice sent to a company, an address which is deemed to have been specified by any provision of the Statutes.
- (4) Notice of a meeting on a website

Provided that the Company has complied with all applicable regulatory requirements the Company may send or supply a notice of meeting by making it available on a website and where the Company intends to make that notice of meeting available on a website, the Company must:

- (a) comply with the provisions of Article 131;

Notice of Meeting

- (b) notify persons entitled to receive such notice that the notice of meeting has been published on the website, such notification to state that it concerns a notice of meeting, to specify the place, date and time of the meeting and whether the meeting will be an Annual General Meeting; and
- (c) the notice must be available on the website throughout the period beginning with the date of notification and ending with the conclusion of the meeting.

Article 130

The Company may send any document or notice to a member either personally or by sending it by post in a prepaid envelope addressed to the member at his registered address or by leaving it at that address or by sending it in electronic form to an address for the time being notified by the member to the Company for that purpose or by making them available on a website.

Article 131

- (1) Documents sent in electronic form by the Company

Subject to any requirement of the Statutes and provided that the Company has complied with all applicable regulatory requirements, the Company may send any documents or notices to its members in electronic form and such documents or notices will be validly sent provided that:

- (a) the member has agreed either generally or in respect of a specific matter (or in the case of a company is deemed to have agreed by a provision in the 2006 Act that documents or notices can be sent in electronic form);
- (b) the documents are documents to which the agreement applies; and
- (c) copies of the documents are sent in electronic form to the address notified by the member to the Company for that purpose.

- (2) Documents communicated by website

- (a) Subject to any requirement of the 2006 Act and provided that the Company has complied with all applicable regulatory requirements, the Company may send any documents or notices to its members by means of a website and any such documents or notices will be validly sent provided that:
 - (i) the member has expressly agreed (generally or specifically) that documents or notices may be sent by means of a website to him or he has been asked (individually) to agree that documents and notices can be sent by means of a website and the Company has received no response to that request within 28 days from the date on which the request was sent;
 - (ii) the documents are documents to which the agreement applies; and
 - (iii) the member is notified of the presence of the documents on the website, the address of the website, the place on the website where the documents may be accessed and how they may be accessed.
- (b) Documents must be available on the website for a period of not less than 28 days from the date of notification unless the Statutes makes provision for any other time period.
- (c) If the documents are published on the website for a part only of the period of time referred to in Article 131(2)(b), they will be treated as being published throughout the period if the failure to publish throughout that period is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notice of Meeting

(3) Right to hard copies

Where the Company sends documents to members otherwise than in hard copy form, any member can require the Company to send him a hard copy version and the Company must do so free of charge and within 21 days of the date of the member's request.

(4) Documents sent to the Company

- (a) Where the Statutes permit documents to be sent to the Company, only such documents as are specified by the Company may be sent to the Company in electronic form to the address specified by the Company for that purpose.
- (b) If the document in electronic form is sent by hand or by post, it must be sent to the Company's office.
- (c) A document sent to the Company in electronic form is sufficiently authenticated if the identity of the sender is confirmed in the way the Company has specified.

In the case of joint holders of a share, all notices shall be given to the joint holder whose name stands first in the register of members in respect of the joint holding and notice so given shall be sufficient notice to all the joint holders. A member whose registered address is not within the United Kingdom shall not be entitled to receive any notice from the Company unless he gives to the Company an address (not being an address for the purposes of electronic communications) within the United Kingdom at which notices may be given to him. Where the Statutes or these Articles require agreement of a member to electronic means of communication or website communication, the holder who is named first in the Register may give agreement on behalf of both joint holders.

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 registrars 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 6pm on 14 May 2007 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 6pm on 14 May 2007 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 12 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 12 attaching to 10 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

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 16 May 2007 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.

Documents available for inspection

The register of the transactions (if any) of each director and of their family interests in the shares of the Company, copies of the terms of appointment of the non-executive directors, the Company's existing memorandum and articles of association and a copy of the Company's articles of association marked to show the amendments proposed to be made pursuant to resolution 13 and 14 are available for inspection at the registered office of the Company during usual business hours and will be available for fifteen minutes prior to and during the meeting.

Shareholder Information

Company website

A full copy of this Annual Report and Accounts, together with that for prior years and other information, can be found on the NEXT plc website at www.next.co.uk

Financial diary

The recommended final ordinary dividend, if approved, will be paid on 2 July 2007 to holders of ordinary shares registered on 25 May 2007. The ordinary shares will trade ex-dividend from 23 May 2007.

The trading results of the Group are normally announced as follows:

Interim results	September
Final results	March

Annual General Meeting

The Annual General Meeting will be held at 11.00 a.m. on Wednesday 16 May 2007 at the Belmont House Hotel, De Montfort Street, Leicester, LE1 7GR. The notice of the meeting on pages 74 to 83 sets out business to be transacted. Please detach the attendance card from the form of proxy and bring it to the meeting. Presentation of this card will show that you have the right to attend, speak and vote. Full access is available to the venue for those with special requirements.

Proxy card

The proxy card is enclosed for you to detach, complete and send to Lloyds TSB Registrars. **It must be received by 11.00 a.m. on 14 May 2007.**

Share price data

	2007	2006
Share price at 27 January	1946p	1698p
Market capitalisation	£4,418m	£4,179m
Share price movement during year:		
High mid-market quotation	1961p	1734p
Low mid-market quotation	1600p	1268p

CREST

The Company's ordinary shares are available for electronic settlement.

Registrars and transfer office

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone 0870 600 3970

Shareholder enquiries

The Company's share register is maintained by Lloyds TSB Registrars. Please contact them if you have any enquiries about your NEXT plc shareholding including the following matters:

- change of name and address.
- loss of share certificate, dividend warrant or tax voucher.
- if you receive duplicate sets of company mailings as a result of an inconsistency in name or address and wish, if appropriate, to combine accounts.

The Shareview Portfolio service from our registrars, Lloyds TSB Registrars, gives you more online information about your NEXT plc shares and other investments.

For direct access to information held for you on the share register including recent balance movements and a daily valuation of investments held in your portfolio visit www.shareview.co.uk

For shareholders with disabilities Lloyds TSB Registrars provide the following:

- if requested future communications produced by them will be sent in the appropriate format.
- textphone number 0870 600 3950 for shareholders with hearing difficulties.
- hearing loop facilities in their buildings for use by visiting shareholders.

Payments of dividends to mandated accounts

Shareholders who do not at present have their dividends paid directly into a bank or building society may wish to do so. A mandate form is attached to your dividend warrant and tax voucher or is available from Lloyds TSB Registrars, telephone 0870 600 3970.

Discount voucher

The Company offers a discount voucher to any first named, registered shareholder holding 500 or more ordinary shares as at 1 April each year. The voucher entitles the recipient or their immediate family to a 25% discount against most purchases at any one time of full price merchandise in NEXT Retail stores. The voucher has no monetary purchase limit and expires on 31 October of the same year. Shareholders holding shares in nominee or PEP/ISA accounts are also eligible, but must request the voucher through their nominee or PEP/ISA account manager.



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Annual Report & Accounts

January 2007



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