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ANNUAL REPORT & ACCOUNTS
JANUARY 2008

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 "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "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 14 to 15; 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.

“The year to January 2008 was another successful year for Next.”

- Group revenue increased 1.4% to £3,329m
- Profit before tax increased 4.1% to £498m

“These results reflect the efforts we have made in building and improving the Next Brand.”

“We believe that long term growth in earnings per share will deliver growth in value for shareholders.”

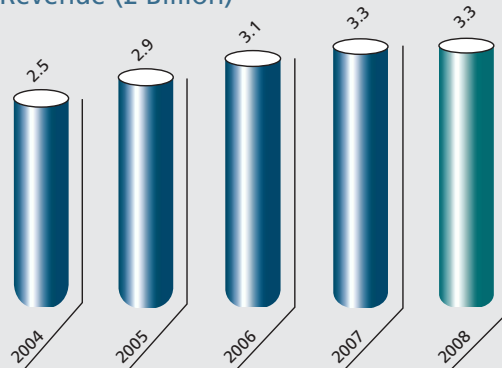
- Earnings per share increased 15.5% to 168.7p

“The Board is pleased to recommend a final dividend of 37p, making 55p for the year.”

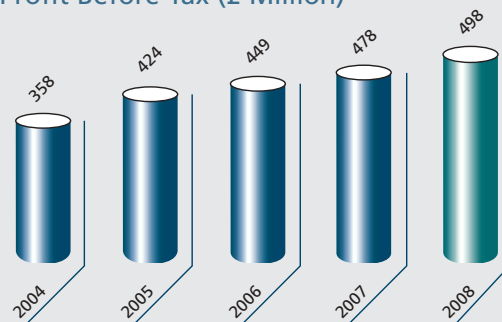
- Total dividend increased 12.2% to 55p
- 26 million shares purchased and cancelled during the year at a cost of £514m

“Our strategy of concentrating on the design, quality and value of product, together with customer service and delivery, will remain the cornerstone of our success in the future.”

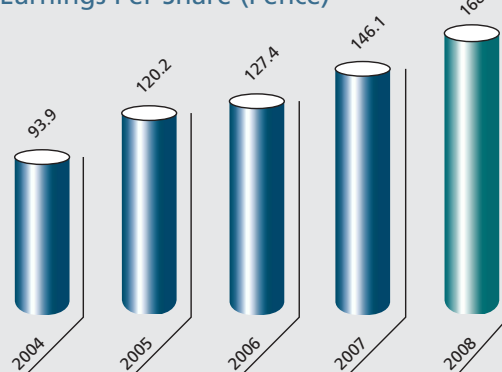
Revenue (£ Billion)



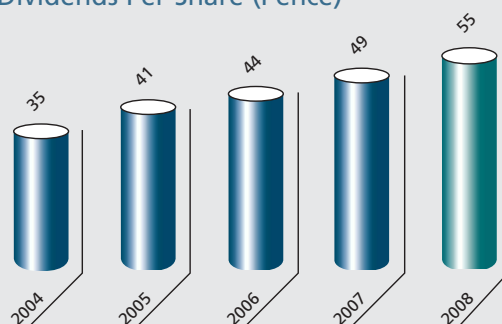
Profit Before Tax (£ Million)



Earnings Per Share (Pence)



Dividends Per Share (Pence)



Chairman's Statement

The year to January 2008 was another successful year for Next, with earnings per share growth of 15.5% to a new record for the Group of 168.7p. These are good results in a period of economic slow down and are a reflection of the efforts we have made in building and improving the Next Brand.

The Board is pleased to recommend a final dividend of 37p compared with 33.5p last year making 55p for the year, an increase of 12.2%. The continued use of surplus capital to buy back shares has again enabled us to deliver superior growth in earnings per share, our main financial objective. Despite recent share price volatility we remain convinced that, in the long term, growth in earnings per share will deliver growth in value to shareholders. In the last five years we have returned over £1.3 billion to shareholders in this way.

Trading conditions in the year ahead will continue to be difficult as increased costs and rising taxes put pressure on our customers. In these circumstances, we believe that our main strategy of investing in the Next Brand whilst improving and extending our product ranges will offer us the best protection against any downturn in the UK economy. Our Directory business, in particular, gives us a strong and flexible base from which to grow our product offering.


We are also extending the Next Brand into new overseas markets where we believe there are opportunities to build profitable businesses. If this is successful it will bring new sources of growth over the longer term.

Derek Netherton will step down from the Board at the AGM in May. Derek has served on the Board for eleven years during which Next has grown its profit by over three times, dividend by over four times and earnings per share by over five times. He has been a wise counsel to both the Board and the executive team. We owe him many thanks for his help and advice.

During the year Steve Barber joined the Board as a non executive director and he will take over from Derek as Chairman of the Audit Committee.

We have a robust operating model and strong cash flows, which will stand us in good stead as we go through what we anticipate will be a difficult trading period. We will continue to return cash to our shareholders through dividends and share buybacks. However, our first priority will be to ensure that the Company protects its strong financial base.

Our strategy of concentrating on the design, quality and value of product, together with customer service and delivery, will remain the cornerstone of our success in the future. That success cannot be secured without the commitment and hard work of our management team, all our staff and the support of our suppliers. I would like to thank them all for the contribution they have made in achieving these results.



John Barton
Chairman

Directors' Report and Business Review

The Directors present their annual report and audited accounts for the financial year ended 26 January 2008.

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 500 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 International, with more than 150 stores overseas.

Other Group businesses include:

- Next Sourcing, which designs, sources and buys Next 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 Report 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 sustainable long term growth in earnings per share. Next aims to achieve this by implementing the following strategies in its operating businesses:

- Improving and developing Next product ranges, success in which is reflected in total sales and like for like sales performance.
- 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.
- 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

PROFIT GROWTH IN A CHALLENGING YEAR

In the year ending January 2008 Next plc increased operating profit by 5.8% in a worsening retail environment. This was achieved by a robust performance in Next Directory and good cost control throughout the Group.

Earnings per share have moved forward by more than operating profits as a result of share buybacks and a lower tax rate, they are 15.5% ahead of last year.

	Revenue excluding VAT		Profit & Earnings per share		
	2008 £m	2007 £m	2008 £m	2007 £m	
Next Retail	2,255.1	2,255.0	319.9	316.6	
Next Directory	799.8	774.5	164.4	143.9	
The Next Brand	3,054.9	3,029.5	484.3	460.5	+5.2%
Next International	54.1	49.8	7.1	6.0	
Next Sourcing	6.4	6.4	32.8	31.8	
Ventura	203.7	190.9	21.5	20.6	
Other activities	10.0	7.2	(2.1)	(1.1)	
Share option charge	–	–	(8.8)	(8.3)	
Unrealised exchange gain/(loss)	–	–	2.3	(2.0)	
Revenue & operating profit	3,329.1	3,283.8	537.1	507.5	+5.8%
Interest expense			(39.0)	(29.1)	
Profit before tax			498.1	478.4	+4.1%
Taxation			(144.2)	(146.9)	
Profit after tax			353.9	331.5	+6.8%
Basic earnings per share			168.7p	146.1p	+15.5%

PROGRESS DURING THE YEAR

At the beginning of 2007 we set ourselves the objective of revitalising the Next Brand whilst continuing to move profits forward. We have achieved the following:

- Made our ranges more aspirational, improved our marketing and commenced the rapid roll out of a new shop fit.
- Improved like for like sales performance in our Mainline stores from -7.0% last year to -3.2% during the year just ended in the face of a worsening retail environment. Our trading performance in both Spring Summer and Autumn Winter was within the guidance we issued for each season.
- More than offset the costs of increased marketing with operational cost savings and improvements in bought in gross margin, delivering growth in operating profits despite negative Retail like for like sales.
- Increased earnings per share by significantly more than profits as a result of our continuing strategy of buying back shares. This, together with a reduced tax rate, takes the total EPS growth to +15.5%.

Our financial goal remains the delivery of sustainable long term growth in earnings per share, which we believe to be the engine of long term growth in shareholder value.

Directors' Report and Business Review

REVITALISING THE NEXT BRAND

The main task last year was the revitalisation of the Next Brand. First and foremost this involved reminding ourselves what Next stands for, namely:

Exciting, beautifully designed, excellent quality clothing and homeware that reflect the aspirations and means of our customers

Put simply our goal has been to put a little of the magic back into the Next Brand through our product ranges, marketing and shopfit.

PRODUCT

Newness

Throughout last year we increased the levels of newness within our ranges so that there were more new products for our customers to see every six weeks. This change has been partly as a result of selecting product closer to season, but more importantly there has been a determined effort to take more calculated risks at the time of selection and back new trends with conviction. Hand in hand with this approach has been an increase in the importance we attach to design and the speed with which new trends are adopted.

We are comfortable with the levels of newness we are currently achieving and the emphasis must now shift to maximising the potential of best sellers through the addition of alternative colour-ways of key lines.

Design and Quality

At the beginning of last year we observed that our customers were trading up our price architecture, it is these products where we are best able to compete on design and quality. Whilst our product must be affordable to most people and great value, it will not necessarily be the cheapest. So we have moved the emphasis of our ranges away from price starters, increasing the proportion of items at mid price points and introducing new prices at the top end of our ranges.

The table below sets out how the average selling prices for our clothing ranges has changed against the previous year.

Average selling price (Sales divided by units)	Spring Summer 2008 (E)	Autumn Winter 2007	Spring Summer 2007	Autumn Winter 2006
Womenswear	+7%	+5%	+3%	-4%
Menswear	+3%	+5%	-1%	-3%
Childrenswear	+5%	+4%	-5%	-5%

There are two important points that need to be made in respect of this change in average selling price:

- We are not raising prices on like for like products, we must remain vigilant to ensure that our range remains competitive at every level of our price architecture.
- Average selling prices have only risen as a result of a change in the mix of product the customer is buying.

We anticipate a less marked upward movement in average selling prices in Autumn Winter 2008, at between two and four percent, as a result of increased participation of mid price points and further extensions to the Signature range.

MARKETING

In order to communicate the changes we have made to our ranges we have increased both the effort and investment we make in marketing the Next Brand. We have improved the quality of our in-store displays, graphics and windows. In total we spent an additional £16m on marketing in the year, most of this increase went into press, billboard and TV advertising and windows.

We do not anticipate a further increase in the marketing budget in the year ahead and aim to maintain marketing activity at broadly the same level as in the year just ended.

Directors' Report and Business Review

SHOP FIT

The updating of our shop fit is an integral part of revitalising the Brand. The aim is that our merchandise is displayed in stores whose interior design reflects the design and quality of the clothing and homeware. In addition to 39 refits we opened 39 new stores in the new concept, the most important of which was our 43,000 square feet store in Sheffield, Meadowhall.

A secondary benefit is that many stores experience an uplift in sales as a result of a refit. However it is important to regard refit expenditure as an increase in maintenance costs rather than a one off investment with a long term return, because the sales improvements tend to tail off after a year.

One important lesson has been that if a refit takes too long then it can take a considerable amount of time for trade to rebuild. As a result we will be doing less comprehensive refits in stores that are less than six years old. These will deliver a significant amount of the perceived improvement in less time and at a much lower cost. These mini-refits are expected to last 6 to 8 weeks whereas a full refit would take 12 to 16 weeks, the cost being about £22 per square foot as opposed to £65 per square foot.

In the year ahead we expect to spend in the region of £37m on refitting existing stores. The table below sets out approximately what we completed during the year and what we expect in the year ahead. By the end of this year we expect 48 percent of our portfolio (by revenue) will be in the new concept. In addition we will have redecorated and re-branded a further 24 percent.

Year to	New Sq ft '000	Refits Sq ft '000	Redecoration Sq ft '000	TOTAL Sq ft '000
January 2008	500	600	800	1,900
January 2009 (E)	500	1,000	600	2,100
Total	1,000	1,600	1,400	4,000
Percentage of portfolio	18%	29%	19%	66%
Percentage of revenue	16%	32%	24%	72%

NEXT RETAIL

Retail Sales

Retail sales require some additional explanation. Unusually, there was a significant difference between the performances of Next Mainline and Next Clearance. Mainline sales finished the year up 0.1% with like for like sales down -3.2%, this was within the guidance we gave at the start of the year of -1% to -4% like for like.

Movement in sales:

Net sales from new space	+3.8%
Mainline like for like performance	-3.2%
Impact of Next Clearance	-0.6%
Total Retail sales	0.0%

The performance of Clearance reflects a significant reduction in the value of its stock, which was on average -19% down. This reduction was the result of better clearance and deeper discounts in our end of season Mainline Sales. We expect the performance of Clearance will be closer to Mainline in the year ahead.

Directors' Report and Business Review

New Space

In the year we opened a net 378,000 square feet of new trading space.

	Jan 2008	Jan 2007	Annual change
Store numbers	502	480	+22
Square feet 000's	5,201	4,823	+378

The forecast payback on net capital invested is comfortably within our 24 month target at 18.6 months and the net branch contribution of the new stores is 16.5%. Net sales from new space are forecast to be 2.1% below appraised targets.

In addition to a long standing Home store in Glasgow Braehead we opened stand alone Home stores in Thurrock Retail Park and on Tottenham Court Road, London. Sales from the out of town stores have been encouraging and we anticipate opening at least a further five in the current year. Our Home business continued to grow throughout the course of 2007 and represents an important opportunity in a sector where we believe there will be further consolidation.

We currently expect to add a net 400,000 square feet of new space to Retail in the year ahead.

Retail Profit

Retail profit increased by 1.0% against last year. Net margins moved forwards slightly from 14.0% to 14.2%. The margin movement is detailed below; the figures show the change as a percentage of sales for each of our major heads of cost:

Net operating margin last year	14.0%
Increase in achieved gross margin	+1.8%
Increase in branch wage costs	-0.2%
Increase in branch occupancy costs	-1.0%
Increase in central overheads	-0.4%
Net operating margin this year	14.2%

The improvement in achieved gross margin of +1.8% is primarily a result of bought in gross margin improving by +1.4%. This is due to better sourcing rather than increasing selling prices on like for like product. In Spring Summer 2008 we expect a further increase in gross margin but little or no opportunity for similar improvements in Autumn Winter. By 2009 we anticipate significant inflationary pressures in many important sourcing markets, not least China. It remains to be seen to what extent potential over capacity in world manufacturing will compensate for these pressures.

Further gross margin improvements came from fabric write offs being lower than expected (+0.2%), and settlement of a VAT issue (+0.2%), neither of these one off gains will be repeated in the year ahead. There was no significant change in markdown against last year.

Branch wages increased as a result of the cost of living award. Central overheads increased mainly due to the higher spend on marketing.

Outlook for Retail Costs

In the year ahead we anticipate that occupancy costs will continue to rise as a percentage of sales because of negative like for likes. In addition there will be an increase of around £3m in out of town retail parks where our historic rent is now below the market rate. It is very unlikely that cost savings will outweigh these increases so we do not anticipate any improvement in the Retail net operating margin in the year ahead and are forecasting a decline of around 1%.

Directors' Report and Business Review

NEXT DIRECTORY

Directory Sales

Directory sales increased by 3.3%. Improved stock availability and increased service charge income meant that sales rose faster than underlying demand, which was up 1.0%.

Sales growth was driven by a 1.2% increase in the average number of active customers and a 16.5% increase in pages. The majority of the additional pages went to new and developing product areas. We have continued to extend the portfolio of Next branded product, particularly in the home furnishings area.

The internet continues to be very important to the development of the Directory and now accounts for almost 60% of our orders. One of the priorities of the year ahead will be the improvement of our website functionality where we believe we have yet to fully exploit the potential for linked sales and search driven stock selection. We have developed a Euro website and are now selling directly to Spain and Ireland.

In March we launched the "Brand Directory" website which will showcase all the non-Next branded products available in the Next Directory, along with some lines which we will only sell through this website.

Directory Profit

Directory profit was 14.3% up on last year, a good performance. The profit growth was mainly as a result of improved operating margins; the table below shows the change as a percentage of sales for each of our major heads of cost:

Net operating margin last year	18.6%
Increase in achieved gross margin	+0.1%
Reduction in bad debt	+2.7%
Increase in service charge income	+0.4%
Increase in central overheads	-1.2%
	<hr/>
Net operating margin this year	20.6%

Achieved gross margin increased by 0.1%. The bought in gross margin increased by 0.8%, this was eroded by -0.5% as a result of increased markdown and -0.2% from other provisions. The bought in gross margin in Directory did not grow as much as Retail as a result of the addition of lower margin non-Next branded product.

In July 2006 we began to prepare for a worsening consumer debt market and made significant changes to the credit vetting of new applicants for the Next Directory, the effects of which began to be felt in January 2007 and continued through the year. Whilst these restrictions inhibited the growth of our customer base the benefit has been a very significant drop in bad debt. This increased the net operating margins of Directory by +2.7%. At the same time, service charge income rose faster than sales adding +0.4% to margin.

Cost increases in catalogue production (-0.5%) and systems (-0.2%) were offset by savings in warehousing and distribution (+0.7%). The 1.2% increase in central overheads is therefore a result of increased marketing spend.

Outlook for Directory

It is difficult to forecast the performance of the Next Directory in the year ahead as there are contradictory market trends, these are set out in the table below.

Positive

General growth of internet based shopping favours Directory, which offers a market leading service and a broad offer

Stricter entry rules and credit control have annualised so they are no longer a drag on recruitment

Opportunity to move into new Next branded products and sell non-Next branded product

Negative

General pressure on consumer spending

Increased online competition from other high street clothing retailers

Directors' Report and Business Review

We anticipate Directory sales will be up between 0% and 2% in the first half. Net operating margins in Directory are forecast to be broadly neutral. A reduction in markdown and some further bad debt savings are likely to be offset by increased printing and warehousing costs, together with lower gross margins on new products.

NEXT INTERNATIONAL

Sales to our franchise partners and through our Chinese joint venture grew by 9% to £54m. Our partners' own sales rose by 17% to approximately £127m. A year ago sales to our partners increased faster than profits due to a difference between product shipments and partner sales, this has now corrected and profits grew 18% to £7.1m.

During the year 28 additional stores were opened, making 158 in total. Whilst our overseas business will not make a significant contribution to the Group in the short term we now believe it presents an important opportunity in the long term. This business is developing into the three models detailed below.

Traditional franchise

The majority of territories will remain traditional franchises, where we supply product to a third party and take either a mark up on the product cost or a royalty on sales. This is very low risk, requires no capital investment but is relatively low margin.

Wholly owned – Continental Europe

We intend to develop a wholly owned business in Central Europe and Scandinavia. These stores will be operated in essentially the same way as those in the Republic of Ireland. Stock will be picked and despatched from our warehouses in the UK to a hub where it can be sorted and delivered to store on smaller vehicles.

We already have one store in Denmark and have learnt much in the past few years about how to operate in this region. The store is now profitable and growing on last year. We intend to open at least two more stores in Scandinavia over the coming year.

In Central Europe we have agreed to acquire our franchise partner's business in the region consisting of eight stores in the Czech Republic, two stores in Hungary and two stores in Slovakia turning over £12m. This business will be purchased on a multiple of 3.2 times historical EBITDA for £4m. We believe there is significant opportunity to grow our business in this region and to improve the profitability of the operation.

Joint Venture – China

Last year we opened our first store in China, located in Shanghai. Our retail business in China is in partnership with a Chinese manufacturing and retail group who own 25% of the business. Over the next two years we aim to open up to ten stores in order to build a stable business model for the Chinese market. The first task will be to ensure that local (Far East) product can be dispatched to Chinese stores direct from manufacturers. We believe that it will take at least two years to develop and test our business before we undertake a significant roll out of any concept.

NEXT SOURCING (NSL)

NSL is our overseas sourcing operation which has offices in several countries including China, Hong Kong, India, Sri Lanka, Turkey and the UK. NSL charges a commission on the product it sources and during the year it supplied approximately 55% by value of Next Retail and Directory product purchases.

Total sales increased to £620m and profits increased by 3.3% to £32.8m. This was slightly below expectations due to shipments for the Autumn Winter season being less than originally planned. We expect that profits for the coming year will be in the region of £31m.

Directors' Report and Business Review

VENTURA

Ventura started the year strongly and increased its turnover to £204m. Full year profits of £21.5m were 4.3% ahead of the previous year. However, the fourth quarter became progressively more difficult as the volume of telephone traffic with one of its major clients, Northern Rock, reduced substantially. Replacing this business in the year ahead will be a priority. Coupled with volume and pricing pressures generally in consumer facing businesses, we expect that profits for the coming year will be in the region of £16m.

Ventura has traditionally focused on call centre and back office work for its clients. This year we have launched an important addition to its portfolio through offering warehousing and distribution services to third parties. This will leverage the facilities and skills of the Next group and we have already won three clients.

OTHER ACTIVITIES

The Other Activities net charge was £2.1m including Central Costs of £7.2m. 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). We expect that the net charge for the coming year will be in the region of £3m.

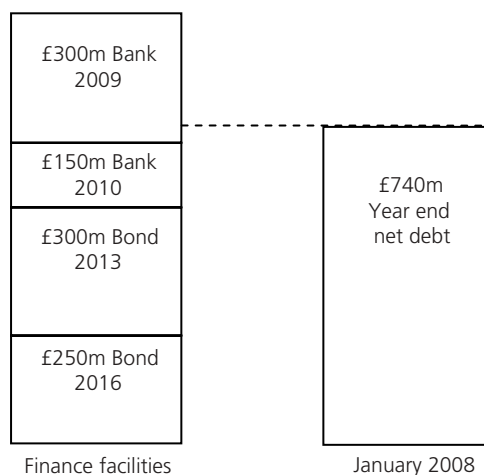
INTEREST AND TAXATION

The interest charge of £39m was higher than last year due to the financing of cash outflows in respect of share buybacks, we expect a charge of approximately £45m for the year ahead. The tax rate was 29% and we expect a similar rate going forward.

BALANCE SHEET AND CASH FLOW

Cash flow from operations was again very strong and we achieved a cash inflow of £217m before share buybacks. The increase in net debt after buybacks of £513m was £296m.

Net borrowings at the year end were £740m. This debt is financed by long term bonds and committed bank facilities. As can be seen from the graph below, our financing is well structured with £550m of ten year bonds which mature in 2013 and 2016. We have two committed bank facilities the first of which matures in September 2009, our intention is to refinance this facility during the current year.



Going into a difficult year we have modelled our prospective cash flows at different levels of sales performance. Working with Retail like for likes of -5% we believe that net cash generation after £54m of committed share buybacks would be around £105m and with like for likes of -7.5% net cash generation would be around £72m. Even in the very unlikely event that Retail like for like sales were 10% down and Directory 2% down, we believe we would still generate around £38m of net cash flow.

Capital expenditure of £180m included £122m on stores and £43m on warehousing. We expect this year's expenditure will be in the region of £135m. Year end stock levels at £319m were 13% up on last year, correcting the unusually low position reported at January 2007. Debtors of £605m included £438m of Directory customer account balances, which increased in line with Directory sales.

Directors' Report and Business Review

SHARE BUYBACKS

During the year we purchased a further 26 million shares for cancellation at an average price of 1974p and a cash cost of £513m. This was 11.5% of the shares in issue at the beginning of the year. Resolutions to renew buyback authorities will be put to shareholders at the AGM in May.

Despite recent share price volatility, we believe the return of surplus capital through this route is the right strategy in pursuit of our primary financial objective, which is to maximise sustainable growth in earnings per share. It is our belief that delivery of long term growth in earnings per share will create value for shareholders.

Over the course of the last eight years we have bought in 46% of the issued share capital at an average price of 1125p.

DIVIDEND

The Directors are recommending a final dividend of 37p against 33.5p last year, bringing the total for the year to 55p compared with 49p, an increase of 12.2%. The dividend remains covered 3 times by earnings per share of 168.7p.

2008 TRADING STATEMENTS

In our November Interim Management Statement we set out the dates and contents for future statements. The next two will be in early May and early August covering the first and second quarters of 2008. As a result we will not be giving a current trading statement at this time.

The table below gives the sales performances that would have been announced had we made quarterly statements last year.

As can be seen, the first quarter presents much tougher comparatives than the second quarter. Last year we experienced some very strong weeks in March and over Easter as a result of unseasonably warm weather. In contrast May, June and July were all very disappointing as a result of very poor weather (floods etc). We, therefore, anticipate a significant difference in the sales growth which will be reported in our first and second quarters, with the second being better than the first.

Sales	1st Quarter 2007	2nd Quarter 2007
Brand total	+3.7%	-2.3%
Retail total	+3.0%	-3.2%
Directory total	+5.5%	+0.5%
Retail Mainline full price like for like	-1.3%	-6.6%

2008 OUTLOOK

Retail Economy

We can see no reason why there should be any recovery in consumer spending during the year ahead. Recent base rate cuts will do little to reduce the overall burden of mortgage repayments as they will be partially offset by the expiry of fixed rate mortgages which were set at lower rates than those prevailing today. This combined with increases in fuel, tax and other essential household costs mean that it will be at least twelve months before the consumer has a stable year on year cost base.

The Next customer profile is dominated by ABC1 25-45 year olds, who are likely to be hit hardest as their exposure to the costs of debt are high.

Outlook for Next

Against a downbeat economic outlook we are more positive about the health of the underlying Next business. We believe our ranges have made good progress and that the Next Brand is in much better shape than at the same time last year. As a result we are basing our internal budgets for the first half on Retail like for like sales of between -4% and -7% and Directory sales of between 0% and +2%.

Directors' Report and Business Review

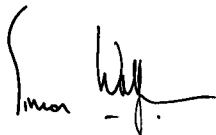
PRIORITIES FOR THE YEAR AHEAD

In facing a challenging year we are very clear what our priorities must be:

- Maintain very conservative sales expectations. It is tempting to start a retail budget at the bottom line and build back to the sales "required". We have been very careful to begin our budgets with what we believe the likely top line sales will be.
- Control stocks. The most important part of stock control is setting a realistic sales budget. In addition we are placing much greater emphasis, and have developed new systems, to improve our control of stock in season.
- Identify further cost savings within the Group.
- Continue to invest in the Brand through improving the design and quality of our ranges, our marketing and our shop fit.

Next has always positioned itself at the aspirational end of the mass market. Long term this is the part of the market likely to grow fastest as economic growth enables more people to become affluent. In a downturn it is also likely to be the part of the market that suffers most. It would be all too easy for us to surrender our market position by chasing business outside of our core customer, this could destroy our brand – we will not do this.

Our objective is to manage the business through this difficult period and maintain the financial stability of the Group. We are well placed to weather a downturn with healthy net margins, sound financing and strong cash flows. In the meantime we will focus on improving our brand so that Next is better placed to prosper when the retail economy recovers.



Simon Wolfson
19 March 2008

Directors' Report and Business Review

KEY PERFORMANCE INDICATORS

In addition to earnings per share and divisional revenues and profits which are detailed in the Chief Executive's Review and elsewhere in this Annual Report, details of other key performance indicators used in the management of the business are provided below:

Next Retail Sales

	2008		2007	
	No. stores	LFL %	No. stores	LFL %
Total	411	-4.9%	394	-10.0%
Underlying	328	-3.8%	269	-7.2%

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.

Retail selling space

	2008	2007	Annual change
Store numbers	502	480	+22
Square feet 000's	5,201	4,823	+378

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

Retail operating margin

	2008	2007
Net operating margin last year	14.0%	14.8%
Increase in achieved gross margin	+1.8%	+1.5%
Increase in branch occupancy costs	-1.0%	-1.9%
Increase in branch wage costs	-0.2%	-0.4%
Change in central overheads	-0.4%	0.0%
Net operating margin this year	14.2%	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.

Directory customers

	2008	2007	Annual change
Average active customers	2,160,000	2,134,000	+1.2%
Average sales per customer	£370	£363	+1.9%
Number of pages	3,652	3,136	+16.5%

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 active customers.

Directory operating margin

	2008	2007
Net operating margin last year	18.6%	14.1%
Increase/decrease in achieved gross margin	+0.1%	-0.2%
Decrease/increase in bad debt	+2.7%	-0.6%
Increase in service charge income	+0.4%	+1.5%
Increase/decrease in central overheads	-1.2%	+3.8%
Net operating margin this year	20.6%	18.6%

Share buybacks

	2008	2007
Number of shares purchased ('000)	26,057	19,046
% of opening share capital	11.5%	7.7%
Total cost (£m)	514.4	316.3
Average cost per share (£)	19.74	16.61

Total cost of shares purchased includes stamp duty and associated costs.

Directors' Report and Business Review

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 are summarised below:

- **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.

- **Key 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 Next's product offer. Non-compliance by suppliers with the Next Code of Practice may increase reputational risk.

- **Development of 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 where its financial criteria are met and refurbish its existing portfolio when appropriate. 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.

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 restrictions, 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.

Directors' Report and Business Review

- **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 servicing debt 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 Notes 29 to 33 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.

Employee share ownership

More than 10,000 Next employees held options over a total of 9.4 million shares in Next plc at January 2008. 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 4.6 million shares, the voting rights of which are exercisable by the Trustee.

Pension provision

The Next Pension Scheme provides a valuable pension benefit to its participating employees, details of which are set out in the Remuneration Report on pages 30 and 31 and in Note 22 to the financial statements. As at 26 January 2008, there were 2,088 (2007: 2,321) active members in the Final Salary Section and 2,042 (2007: 2,063) members in the Money Purchase Section.

Directors' Report and Business Review

SOCIAL & ENVIRONMENTAL MATTERS

Next is committed to the principles of responsible business. For Next this means delivering value to customers and stakeholders, recruiting and retaining the best people to work for the Group, developing positive relationships with suppliers and developing healthy links with the communities in which it operates.

Next has a Corporate Responsibility ("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 forum works to identify potential issues and opportunities and to evaluate Next's performance in responding to these. The CR Manager holds regular updates with the executive director responsible for CR matters.

A third party provides independent assurance on the content of the Group's CR report which is published on the Company's website each year. Next's commitment to CR matters is also recognised externally by its continuing membership of the FTSE4Good Index Series.

Suppliers

Next's Code of Practice ("COP"), is an established set of ethical trading standards which forms an integral part of the Group's operations. The Next COP has ten key principles which stipulate the minimum standards with which suppliers are required to comply in relation to workers rights and conditions of work including working hours, minimum age of employment, health, safety, welfare and environmental issues. Through its COP Next seeks to ensure all products bearing the Next brand are produced in a clean and safe environment and in accordance with all relevant laws.

Next is committed to its internal supplier audit and management programme and has further expanded its global COP audit team to 37 staff (2007: 31). The COP team works directly with suppliers to identify and address causes of non-compliance. This direct approach also allows Next to build knowledge and understanding in the local communities, as well as monitoring suppliers through its auditing process.

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 26 January 2008 were 24 days (2007: 24 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 26 January 2008 or 27 January 2007.

Customers

Next is committed to offering stylish, excellent quality products to its customers and aims to ensure they are safe and fit for purpose. Its team of technologists works closely with buyers, designers and suppliers to ensure Next products comply with all relevant legislation. The expertise of independent safety specialists for clothing, footwear, accessories, beauty and home products is used where required.

Next endeavours to provide inclusive, high quality service to all customers, whether they are shopping through its stores, catalogues or website. The different methods of shopping must be easily accessible for all customers and be responsive to their particular needs.

Next Customer Services interacts with Retail and Directory customers to resolve enquiries and issues. Findings are documented and the information is used by other areas of the business to review how a product or service can be improved going forward.

Health and safety

Next recognises the importance of health and safety at work and its management is designed to contribute to improving business performance. Policies and procedures are reviewed and audited regularly to make safety management more robust and fully up to date.

The Group's objective is to manage all aspects of its business in a safe manner and take practical measures to ensure that its 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.

Directors' Report and Business Review

Environment

Next recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future. Key areas of focus are:

- energy use and emissions from stores, warehouses, distribution centres and offices
- fuel emissions from the transportation of products to either stores or customers' homes
- waste created in stores, warehouses, distribution centres and offices

During the year Next has continued to investigate opportunities to reduce the total waste it produces and to increase the amount it is able to recycle. Next has continued to reverse haul cardboard and polythene from its stores to be recycled and is also working to minimise packaging on its products.

The Waste Electrical and Electronic Equipment (WEEE) Regulations came into effect on 1 July 2007. Next complies with this legislation through participation in a UK wide WEEE collection system to enable its customers to recycle electrical products free of charge at UK recycling sites.

Community

During the year the Group made charitable donations of £499,000 (2007: £383,000). No donations were made for political purposes (2007: nil). Next has a well established charities and sponsorship programme which invested a further £404,000 (2007: £619,000) 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.

In addition to direct donations by the Group, fundraising events raised a further £433,000 while gifts in kind and sales of Next Christmas cards raised funds of £522,000 for donation to charities, organisations and individuals supported by Next.

The construction of a 146 home village in Sri Lanka is now complete. This was funded by donations from the Group and its directors, employees, associated companies and suppliers following the 2004 Indian Ocean tsunami.

ANNUAL GENERAL MEETING & OTHER MATTERS

Notice of the Annual General Meeting is on pages 82 to 92 and includes the following business:

Dividends

The Directors recommend that a final dividend of 37p per share be paid on 1 July 2008 to shareholders on the register of members on 30 May 2008. 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 28.

Directors

The current Board is shown on page 23 of this report. Mr Wolfson, Mr Varley, Mr Dawson and Mrs Cross will retire by rotation at the 2008 AGM and Mr Barber, who was appointed to the Board on 1 June 2007, will retire in accordance with the Company's Articles of Association. All these Directors are eligible and willing to be reappointed.

In accordance with the provisions of the Combined Code, the Board has formally reviewed the performance of Mr Dawson and Mrs Cross and concluded they remain effective and are committed to their non-executive roles at Next.

Mr Netherton will be retiring at the 2008 AGM after 11 years on the Board of Next plc. Mr Barber was appointed as a non-executive director in the year and has recent and relevant financial experience; if elected, it is therefore intended that he should succeed Mr Netherton as Audit Committee Chairman on the latter's retirement.

The interests of the directors who held office at 26 January 2008 and their families are shown in the Remuneration Report on pages 34 and 35.

Directors' Report and Business Review

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Risk/Reward investment plan

The Company first implemented its Risk/Reward investment plan in July 2004 (the "2004 Plan"). The retail employment 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.

As the retail sector remained very competitive in 2005, a revised structure approved by shareholders was implemented in July 2005 (the "2005 Plan") which included enhanced retention features. Both plans require that Next's share price meet demanding thresholds before any return is achieved and details of the 2005 Plan are given in the Remuneration Report on pages 29 and 30. Approval for further plans was given by shareholders at the 2006 and 2007 Annual General Meetings. However, in the light of prevailing market conditions, the Remuneration Committee did not consider it appropriate to implement a new plan for either of these years.

Over the five years to January 2008, the management team has achieved total shareholder return of 108%, including share price growth of 81%. During this period, earnings per share have increased by 145%, dividends have grown by 77% and £1.3 billion has been returned to shareholders through the Company's share buyback programme.

The retail employment sector remains extremely competitive and Next's rivals continue to target its key staff. In the current environment, the Remuneration Committee has concluded that it would be desirable to implement a new risk/reward plan during 2008. Accordingly, resolution 10 will be proposed to approve a further plan (the "2008 Plan"), thereby allowing the Company flexibility to offer a similar incentive to its key executives and attract new talent to the management team. The structure of the 2008 Plan would be the same as the 2005 Plan and would cost the Company up to a maximum of £2 million to implement. All participants would be required to make a significant investment of personal funds. The principal features of the 2008 Plan are summarised in Appendix 1 to the Notice of the Annual General Meeting.

Renewal of authority to allot shares

Ordinary resolution 11 will, if passed, renew the Directors' authority pursuant to Section 80 of the Companies Act 1985 to allot shares until the conclusion of the next Annual General Meeting or, if earlier, 26 July 2009. 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 £6,600,000, being approximately 33% of the total ordinary share capital in issue at 17 March 2008, none of which are held in treasury. The Directors do not have any present intention of exercising this authority.

Special resolution 12 will, if passed, renew the Directors' authority pursuant to Section 95 of the Companies Act 1985 to allot equity securities for cash without first offering them to existing shareholders in proportion to their holdings. This resolution limits the aggregate nominal value of ordinary shares which may be issued by the Directors to 5% of the issued ordinary share capital. 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 2009 or, if earlier, 26 July 2009. Nor do the Directors 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 Investment Committees of shareholder representative organisations.

Directors' Report and Business Review

On-market purchase of own shares

Next has been returning capital to its shareholders since March 2000 as part of its strategy for delivering long term sustainable growth in earnings per share. Over this period, Next has returned over £1.9 billion to shareholders by way of share buybacks and in excess of £700 million in dividends. This buyback activity has enhanced earnings per share, given shareholders the opportunity for capital (as well as revenue) returns and has been transparent to the financial markets.

Special resolution 13 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 29,900,000 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 to be purchased pursuant to special resolution 14: Contingent contracts and off-market share purchases, see below;
- (b) the payment per ordinary share is not less than 10p and not more than the higher of 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 the next Annual General Meeting of the Company in 2009 and 26 July 2009.

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 promote the success of the Company. The Directors will also give careful consideration to financial gearing levels of the Company and its general financial position. The purchase price would be paid out of distributable profits. It is the Directors' present intention to cancel the shares purchased under this authority.

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

The total number of share options to subscribe for shares outstanding at 17 March 2008 was 9,078,924. This represents 4.5% of the issued share capital at that date. If the Company were 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 17 March 2008 would represent 5.3% of the reduced issued share capital.

Contingent contracts and off-market share purchases

The Directors consider that share buybacks are an important means of returning value to shareholders and maximising sustainable long term growth in EPS. Contingent contracts for off-market share purchases are an important part of this programme. As noted last year, they continue to 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. From the 2007 AGM up to 17 March 2008, a total of 5,800,000 ordinary shares has been bought back for cancellation under such contracts for £108.8m, at a discount of £9.8m (8.2%) compared with 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. Clearance from the FSA for use of contingent contracts, including for settlement in close periods, has been obtained.

Directors' Report and Business Review

- 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.

As with any on-market share buyback decision, 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 will only purchase shares for cancellation using such contracts if, based on the discounted price contracted (rather than any subsequent changes to the share price that cannot be predicted), it is earnings enhancing and promotes the success of the Company for the benefit of its shareholders generally.

Special resolution 14 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 £150 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 Allen & Overy LLP, One Bishops Square, London, E1 6AO, during normal working hours up to the date of the Annual General Meeting and at the Meeting itself.

New Articles of Association

Special resolution 15 proposes the adoption of new articles of association with effect from 1 October 2008. The new articles update the Company's current articles of association primarily to take account of changes in English company law brought about by certain provisions of the Companies Act 2006 that will be in force by or on 1 October 2008.

The principal changes introduced in the new articles are set out in Appendix 3 on pages 88 to 90.

A copy of the proposed new Articles of Association will be available for inspection at the Company's registered office at Desford Road, Enderby, Leicester, LE19 4AT and at the offices of Allen & Overy LLP, One Bishops Square, London, E1 6AO during normal 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 promote the success of the Company and, accordingly, unanimously recommend that you vote in favour of the resolutions.

Share capital and major shareholders

Details of the Company's authorised and issued share capital are shown in Note 25 to the financial statements.

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 26,057,243 ordinary shares of 10p each for cancellation at a cost of £514.4m, representing 11.5% of its issued share capital.

On 26 January 2008 the Company had 200,996,687 shares in issue. As at 17 March 2008, the Company had 199,946,687 shares in issue.

As at 17 March 2008 the following notifications had been received from holders of notifiable interests in the Company's issued share capital as shown:

	No. of 10p ordinary shares	%
Barclays Global Investors	19,141,910	9.6
Fidelity Investments	16,605,894	8.3
Thornburg Investment Management Inc.	10,645,404	5.3

Directors' Report and Business Review

Additional information

Shareholder and voting rights

All members who hold ordinary shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. The Notice of Meeting on pages 91 to 92 specifies deadlines for exercising voting rights.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights.

There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to close periods) and requirements of the Listing Rules whereby directors and certain employees of the Company require Board approval to deal in the Company's securities.

The Company's Articles of Association may only be amended by a special resolution at a general meeting. Directors are reappointed by ordinary resolution at a general meeting; the Board may appoint a director but anyone so appointed must be elected by ordinary resolution at the next general meeting. Directors retire and may offer themselves for re-election at general meeting at least every three years.

Change of control

The Company is not party to any significant agreements which take effect, alter or terminate solely upon a change of control of the Company following a takeover bid. However, should a change of control cause a downgrading in the credit rating of the Company's 2013 and 2016 corporate bonds to sub-investment grade which is not rectified within 120 days after the change in control, holders of the bonds have the option to call for redemption of the bonds by the Company at their nominal value together with accrued interest. This option is restricted only to a downgrade which occurs as a direct consequence of a change in control.

Directors' service contracts are terminable by the Company on giving one year's notice. There are no agreements between the Company and its directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

By order of the Board

A J R McKinlay
Secretary

19 March 2008

Directors' Responsibility Statement

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 financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group; and
- (b) the management report incorporated into the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Simon Wolfson
Chief Executive

David Keens
Group Finance Director

19 March 2008

Directors and Officers

CHAIRMAN OF THE BOARD

John Barton

Aged 63

Became a member of the Board in 2002 and was appointed Deputy Chairman in 2004 and Chairman in 2006. He is also Deputy Chairman of Brit Insurance Holdings plc and a non-executive director of 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 40

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 44

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 54

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 57

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)

S D Barber

N G Brookes

C Cross

J D S Dawson

This committee reviews the Group's internal control, risk management and financial reporting.

Remuneration Committee

J D S Dawson (Committee Chairman)

S D Barber

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)

S D Barber

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 56

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

Steve Barber

Aged 56

Became a member of the Board in June 2007. He is also Chief Financial Officer of Whitehead Mann and formerly finance director of Mirror Group. Previous experience includes almost thirty years in the accountancy profession, principally with Price Waterhouse where he was a senior partner.

Nick Brookes

Aged 57

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 56

Became a member of the Board in 2005. She is also a non-executive director of Premier Foods plc and Empire Co. Ltd (Canada), a retail advisor to Apax Partners and a member of the Advisory Panel of PricewaterhouseCoopers. Previous experience includes fourteen years at Tesco plc and fifteen years lecturing and consulting at Edinburgh and Bath Universities.

Derek Netherton

Aged 63

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 Capital Plc. Formerly a director of J. Henry Schroder Co. Limited and a non-executive director of Hiscox Plc. Mr Netherton will be retiring from the Board at the 2008 AGM.

Company Secretary

A J R McKinlay

Registered Office

Desford Road, Enderby,

Leicester, LE19 4AT

Registered in England, no. 4412362

Registrars

Equiniti,

Aspect House, Spencer Road,

Lancing, West Sussex, BN99 6DA

Auditors

Ernst & Young LLP

Merchant Bankers

Goldman Sachs International

Stockbrokers

UBS Limited

Corporate Governance

Combined Code compliance

The Group complied throughout the year under review with the provisions set out in Section 1 of the June 2006 FRC Combined Code on Corporate Governance.

The Board of Directors

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

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

The Board held nine formal meetings during the year. All directors were present at all nine meetings, with the exception of Mr Netherton who was unable to attend one meeting and Mr Barber who attended all six meetings which took place after his appointment. All directors are required to submit themselves for re-election by shareholders at least once every three years.

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

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

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

Remuneration Committee

The Committee consists of the Chairman and five 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. Five meetings were held during the year and all were fully attended.

Corporate Governance

Nomination Committee

The Committee consists of the Chairman and five independent non-executive directors, including the senior non-executive director. The Committee meets as required to fulfil its duties of reviewing the Board structure and composition and identifying and nominating candidates to fill Board vacancies as they arise. 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 23, 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 directors completing a detailed questionnaire, the results of which were compiled by the Company Secretary for review by the Chairman and the Board as a whole. The senior independent non-executive director appraises the performance of the Chairman through discussions with all the directors individually and, together with the Chairman, appraises the performance of the Chief Executive. The performance of the executive directors is monitored throughout the year by the Chief Executive and the Chairman.

Risk management

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

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

Corporate Governance

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. 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 promote the success of the Company and 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, yearly and half yearly announcements and interim management statements. 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.

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.

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 its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

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. 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. During the year the Committee commissioned a benchmarking exercise by New Bridge Street Consultants LLP covering all aspects of directors' remuneration including share incentives and other performance related reward plans. The Committee also 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. Remuneration policy does not conflict with the Company's approach to environmental, social and corporate governance matters. Packages include basic salary, annual bonus based on pre-tax earnings per share and a long term incentive plan based on total shareholder return. It also includes 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 ("TSR") against approximately 20 other UK listed retail companies. The comparator group of companies for the three year performance period to January 2008 was as follows:

Alliance Boots	GUS	Marks & Spencer	N Brown
Body Shop	JJB Sports	Matalan	Signet
Burberry	J Sainsbury	MFI Furniture	Tesco
Carpetright	Kesa	Morrisons	W H Smith
Dixons	Kingfisher	Mothercare	Woolworths
Findel			

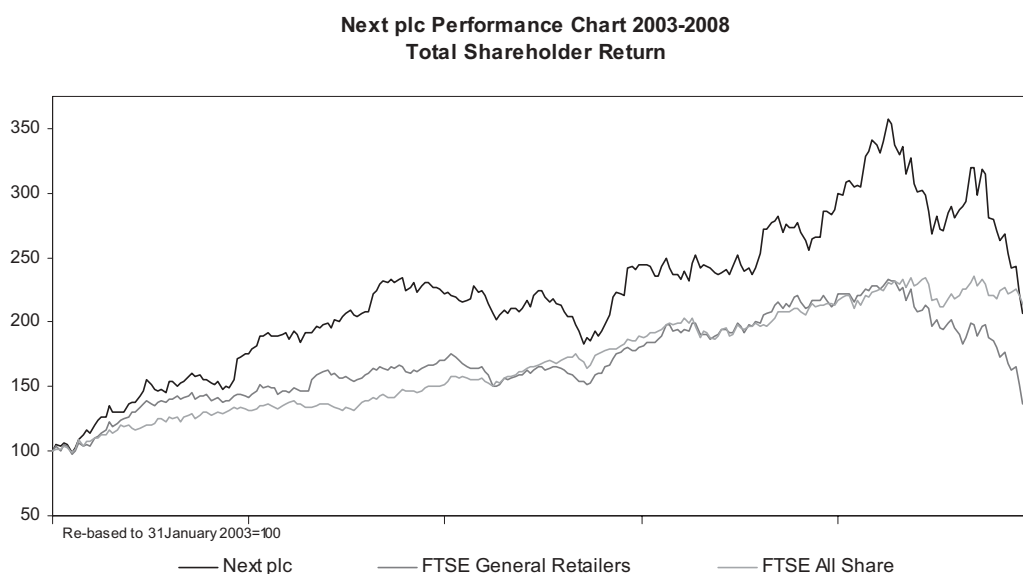
The Committee determines which companies are to be added to or removed from the comparator group. For periods ending January 2010 onwards Body Shop, MFI Furniture and Matalan have been removed from the comparator group and replaced by Debenhams, Carphone Warehouse and French Connection. For periods ending January 2011 onwards Alliance Boots has been removed from the comparator group.

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 of GUS 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 UK listed 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 TSR 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.



Awards are granted provisionally at the start of each three year 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.

If TSR is below the median ranking company there will be no entitlement to any of the award. Median performance earns an entitlement to a minimum percentage 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 at or above a pre-determined ranking in 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. The maximum award allowed under the current rules of the plan is 200% of basic salary (300% in exceptional circumstances). For the performance period commencing February 2005 the maximum award was 100% of basic salary.

The Committee has generally restricted the maximum potential share award below that possible under the rules of the plan. The New Bridge Street Consultants benchmarking exercise indicated that the level of awards was uncompetitive. Accordingly, the Committee has concluded that the maximum level of awards to be made for periods commencing after January 2008 should be increased in line with current market levels, whilst making the performance hurdles more demanding. This will reduce the level of award that vests at the median performance level and the maximum award will only vest if the Company's TSR is in the upper quintile of the comparator group.

Remuneration Report

Details of potential awards granted for outstanding performance periods and the performance criteria for maximum awards based on a comparator group of approximately 20 companies are as follows:

Performance periods commencing	Maximum potential award granted (% of basic salary)		% of maximum potential award at median ranking	Ranking for maximum award
	Directors	Other employees		
February 2005	70% ⁽¹⁾	70%	30%	Upper quartile
February 2006 & 2007	100% ⁽¹⁾	80%	30%	Upper quartile
February 2008	150% ⁽²⁾	120%	20%	Upper quintile

(1) Incremental awards were made to Mr Angelides, bringing his maximum share award to an equivalent of 100% of salary for the performance periods commencing February 2004 and 2005 and 130% of salary for the performance period commencing February 2006. The additional 30% awards are contingent on his remaining with the Group for a five year period to January 2009.

(2) The maximum potential award made to Mr Wolfson for the performance period commencing February 2008 is 200% of basic salary.

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

The risk/reward investment plan was first implemented in 2004 in order to provide a retention incentive for directors and senior employees who were being targeted by Next's competitors. A similar plan with additional retention provisions was put in place after shareholder approval was obtained at an Extraordinary General Meeting in July 2005. Shareholders also approved the implementation of further plans at the 2006 and 2007 AGMs, but the Committee decided it was not appropriate to offer this incentive in either of the years to January 2007 and 2008.

The Remuneration Committee believes the plan remains effective in retaining key employees and, subject to shareholder approval at the 2008 AGM, intends to implement a new plan during the coming year which will be broadly similar to that implemented in 2005. Full details of the 2005 Plan were included on page 22 of the 2006 Remuneration Report, the main elements of which are repeated below.

In July 2005 following approval by the Remuneration Committee, the Group made a special contribution of £1,198,000 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 executives who made personal investments totalling £499,000 (including £266,000 by directors) from their own resources in financial contracts, 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 ESOT will only be distributed (either in Next shares and/or cash) to those participants who have remained with Next.

Based on the share price of £14.93 over the three months to July 2005, the Company's share price must increase by July 2009 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%.

Remuneration Report

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.

Based on a share price of £11.16 on 17 March 2008, Next's share price must increase by more than 79% in the period up to July 2008 if any return is to accrue for participants in the plan that was implemented in July 2004, and more than 83% in the period to July 2009 for the 2005 plan.

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.

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 at 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.

Share based incentives are currently satisfied from shares held by the ESOT. The Board has approved the use of market purchases into treasury where necessary for the future settlement of these obligations.

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 granted at the prevailing market rate less a discount of 20% and are exercisable three, five or seven years from the date of grant. A similar scheme is operated by the Company for its employees in the Republic of Ireland.

Sharesave options granted to directors in the year under review are detailed on page 35.

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"). 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. Two of the directors are member nominated directors and cannot be removed by Next; the other directors, including the independent director, are appointed by and can be removed by Next. All directors of the Trustee receive a fee for their services, including those directors who are also employees of Next. Pensioner and member representatives have been elected as member nominated directors. No director of the Company is a director of the Trustee.

The Plan's investments are kept 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.

Remuneration Report

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.

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 currently makes contributions at the rate of 17.5%. 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. The deficit in the scheme at 26 January 2008 calculated in accordance with International Financial Reporting Standards was £45.8m; further details are given in Note 22 to the financial statements.

Certain members whose accrued or projected pension fund value exceeds their personal lifetime allowance are provided with appropriate benefits through an unfunded, unapproved arrangement where they so elect. 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.

Service contracts

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.

Remuneration Report

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.

Information subject to audit

2008

Directors' remuneration £'000	Salary/fee	Performance related bonus	Benefits	Total
Chairman				
R J O Barton	217	–	–	217
Executive directors				
S A Wolfson	605	341	33	979
C E Angelides	440	248	29	717
D W Keens	436	246	27	709
A J Varley	325	184	29	538
Non-executive directors				
S D Barber	28	–	–	28
N G Brookes	41	–	–	41
C Cross	41	–	–	41
J D S Dawson	54	–	–	54
D N D Netherton	49	–	–	49
Total	2,236	1,019	118	3,373

2007

Directors' remuneration £'000	Salary/fee	Performance related bonus	Benefits	Total
<i>Chairman</i>				
D C Jones	83	–	9	92
R J O Barton	200	–	–	200
<i>Executive directors</i>				
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
<i>Non-executive directors</i>				
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

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 and Mr Barber who was appointed on 1 June 2007. Mr Barton served as a non-executive director until his appointment as Chairman on 17 May 2006.

Remuneration Report

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 £33,754 (2007: £32,771).

Long term incentive plan

Estimated monetary values were included in the January 2007 Remuneration Report for the three year performance plan which matured at that date based on a share price of 2092p on 20 March 2007. Performance conditions of the plan are detailed above. Awards were made subsequent to the Report on 28 March 2007 when the share price was 2353p. 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 2008. The total shareholder return of the Company over this period ranked twelfth in the comparator group of 22 listed retail companies. As this was below the median position, no award vested.

	January 2008		January 2007	
	Actual no. of shares	Estimated value £000	Adjustment to estimate £000	Final value £000
S A Wolfson	-	-	49	441
C E Angelides ⁽¹⁾	-	-	51	459
D W Keens	-	-	34	301
A J Varley	-	-	25	225
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	159	1,426
	<hr/>	<hr/>	<hr/>	<hr/>

(1) Mr Angelides received payment of £320,978 during the year. The balance of £137,556 is only payable if he remains with the Group until January 2009.

The performance periods of the annual long term incentive plans which mature in January 2009 and 2010 respectively are not yet complete and no entitlement has yet been earned. A charge of £514,000 (2007: £4,794,000) has been made in the accounts in respect of the estimate of the amount for awards relating to the year, of which approximately £110,000 (2007: £2,329,000) related to the executive directors.

The directors held the following potential awards over shares under the long term incentive plan for which the performance period was not completed as at 26 January 2008.

	Maximum no. of shares to January 2009	Maximum no. of shares to January 2010
S A Wolfson	38,554	32,599
C E Angelides	36,451	23,709
D W Keens	26,287	23,509
A J Varley	19,627	17,554
	<hr/>	<hr/>
	120,919	97,371
	<hr/>	<hr/>

The potential awards for the performance period to January 2010 were allocated during the year. There have been no other changes to awards under the long term incentive plan during the year.

Remuneration Report

Directors' pension entitlements

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

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

	Age at January 2008	Years of pensionable service	Accrued annual pension £'000	Increase in accrued annual pension £'000	Transfer value of accrued annual pension 2008 £'000	2007 £'000	Increase in transfer value less director's contributions £'000
S A Wolfson	40	13	201	20	1,985	1,219	736
C E Angelides	44	15	185	18	2,309	1,356	931
D W Keens	54	21	294	34	5,698	3,125	2,552
A J Varley	57	24	260	30	5,746	3,330	2,400

Years of pensionable service shown above may include bought in service from the transfer of other pension entitlements into the Plan. Mr Wolfson and Mr Angelides have elected to join the unfunded, unapproved pension arrangement and the accrued annual pension set out above includes their membership of that arrangement.

The Trustees revised the basis of calculation of transfer values with effect from 1 January 2008, which resulted in significant increases in respect of all members of the plan including directors. These changes were made to bring the transfer basis in line with current regulatory guidelines and reflect the improved expectations of future longevity. Of the total increase in transfer values of £6,708,000 for the directors above, £4,131,000 resulted from the change in method of calculation with the remaining increase due to additional service and ageing of the directors, increases in salary and changes in financial market conditions. 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.

Directors' pension arrangements are subject to the same actuarial reduction as other employees on termination or early retirement.

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			
	2008 No. of shares	2007 No. of shares	2008 No. of shares	2008 Average exercise price (p)	2007 No. of shares	2007 Average exercise price (p)
S A Wolfson	1,602,340	1,760,000	1,065	1576	2,340	707
C E Angelides	90,108	80,108	1,081	1514	1,081	1514
S D Barber	1,500	–	–	–	–	–
R J O Barton	12,000	12,000	–	–	–	–
N G Brookes	5,000	5,000	–	–	–	–
C Cross	1,500	1,500	–	–	–	–
J D S Dawson	2,000	1,000	–	–	–	–
D W Keens	145,963	180,963	1,873	865	1,873	865
D N D Netherton	2,000	–	–	–	–	–
A J Varley	79,887	79,887	748	1253	748	1253

Remuneration Report

Share options expire at various dates up to June 2013. The options held by Mr Wolfson and Mr Angelides and 239 shares at an option price of 1514p held by Mr Varley have option prices which exceeded the market price of Next plc shares on 26 January 2008. 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					
S A Wolfson	2,340	707	2200	–	29 May 2007
S A Wolfson	1,065	1,576	–	23 October 2007	–

The total value of options exercised, being the excess of market price over the exercise price on the dates of exercise, was £34,936 (2007: £13,702). The market price of shares at 26 January 2008 was 1375p and the range during the year then ended was 1294p to 2437p.

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 4,587,161 shares owned by the Trust at 26 January 2008. Mr Keens has a beneficial holding of £83,000 (2007: £41,000) nominal value of the Company's 10 year 5.25% corporate bonds.

In addition, Mr Keens acquired 974 ordinary shares in the Company on 4 March 2008 on exercise of a Sharesave option which matured at that date. There have been no other changes to directors' interests in the shares of the Company from the end of the year to 17 March 2008. 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

19 March 2008

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 26 January 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Recognised Income and Expense, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, Accounting Policies, the related Notes 1 to 44 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 whether in our opinion the information given in the Directors' Report & Business Review is 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 2006 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 and 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 26 January 2008 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 26 January 2008;
- 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
Birmingham

19 March 2008

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 26 January	Notes	2008 £m	2007 £m
Revenue	2	3,329.1	3,283.8
Trading profit	2	535.9	506.1
Share of results of associates	11	1.2	1.4
Operating profit	3	537.1	507.5
Finance income	5	4.3	4.0
Finance costs	5	(43.3)	(33.1)
Profit before taxation		498.1	478.4
Taxation	6	(144.2)	(146.9)
Profit for the year		353.9	331.5
Profit for the year attributable to:			
Equity holders of the parent company		354.1	331.5
Minority interest		(0.2)	–
		353.9	331.5
Basic earnings per share	8	168.7p	146.1p
Diluted earnings per share	8	166.6p	144.3p

Consolidated Statement of Recognised Income and Expense

For the financial year ended 26 January	Notes	2008 £m	2007 £m
<i>Income and expenses recognised directly in equity</i>			
Exchange differences on translation of foreign operations		0.6	(1.0)
Gains/(losses) on cash flow hedges		3.4	(34.7)
Hedging adjustment		–	2.3
Actuarial gains on defined benefit pension schemes	22	1.7	32.5
Tax on items recognised directly in equity	6	(11.5)	(0.9)
		<u>(5.8)</u>	<u>(1.8)</u>
<i>Transfers</i>			
Transferred to income statement on cash flow hedges	2	28.2	6.2
Transferred to the carrying amount of hedged items on cash flow hedges		(0.4)	5.8
		<u>22.0</u>	<u>10.2</u>
Net income recognised directly in equity		22.0	10.2
Profit for the year		353.9	331.5
		<u>353.9</u>	<u>331.5</u>
Total recognised income and expense for the year	26	375.9	341.7
		<u>375.9</u>	<u>341.7</u>
Attributable to:			
Equity holders of the parent company		376.1	341.7
Minority interest		(0.2)	–
		<u>375.9</u>	<u>341.7</u>

Consolidated Balance Sheet

As at 26 January	Notes	2008 £m	2007 £m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant & equipment	9	610.6	544.4
Intangible assets	10	36.2	36.2
Interests in associates	11	2.9	2.2
Other investments	12	1.0	1.0
Other financial assets	15	0.5	2.2
Deferred tax assets	6	–	2.6
		651.2	588.6
Current assets			
Inventories	13	319.1	281.8
Trade and other receivables	14	591.5	577.7
Other financial assets	15	12.6	1.2
Cash and short term deposits	16	56.0	121.7
		979.2	982.4
Total assets		1,630.4	1,571.0
Current liabilities			
Bank overdrafts	17	(37.7)	(12.5)
Unsecured bank loans	17	(205.0)	(0.1)
Trade and other payables	18	(652.4)	(621.1)
Other financial liabilities	19	(55.0)	(23.6)
Current tax liability		(92.4)	(81.2)
		(1,042.5)	(738.5)
Non-current liabilities			
Corporate bonds	20	(539.7)	(531.2)
Net retirement benefit obligation	22	(45.8)	(47.0)
Provisions	23	(9.4)	(9.5)
Deferred tax liabilities	6	(22.6)	–
Other financial liabilities	19	(12.3)	(19.2)
Other liabilities	24	(37.2)	(36.3)
		(667.0)	(643.2)
Total liabilities		(1,709.5)	(1,381.7)
Net (liabilities)/assets		(79.1)	189.3
EQUITY			
Share capital	25	20.1	22.7
Share premium account	26	0.7	0.7
Capital redemption reserve	26	9.8	7.2
ESOT reserve	26	(54.8)	(76.9)
Fair value reserve	26	11.3	(19.9)
Foreign currency translation reserve	26	2.6	2.0
Other reserves	26	(1,443.8)	(1,443.7)
Retained earnings	26	1,374.9	1,697.2
Shareholders' equity		(79.2)	189.3
Minority interest	26	0.1	–
Total equity		(79.1)	189.3

Approved by the Board on 19 March 2008

S A Wolfson Director
D W Keens Director

Consolidated Cash Flow Statement

For the financial year ended 26 January	Notes	2008 £m	2007 £m
<i>Cash flows from operating activities</i>			
Operating profit		537.1	507.5
Depreciation		108.4	102.3
Loss on disposal of property, plant & equipment		5.0	2.9
Share option charge		8.8	8.3
Share of undistributed profit of associates		(0.7)	(0.4)
Exchange movement		(2.4)	2.6
(Increase)/decrease in inventories		(37.3)	42.1
Increase in trade and other receivables		(13.9)	(63.7)
Increase in trade and other payables		31.8	49.5
Pension contributions less income statement charge		0.5	(36.1)
		<hr/>	<hr/>
Cash generated from operations		637.3	615.0
Corporation taxes paid		(119.3)	(114.2)
		<hr/>	<hr/>
Net cash from operating activities		518.0	500.8
		<hr/>	<hr/>
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant and equipment		0.4	3.4
Acquisition of property, plant and equipment		(179.3)	(139.9)
		<hr/>	<hr/>
Net cash from investing activities		(178.9)	(136.5)
		<hr/>	<hr/>
<i>Cash flows from financing activities</i>			
Repurchase of own shares		(512.8)	(316.3)
Purchase of own shares by ESOT		–	(24.8)
Proceeds from disposal of shares by ESOT		23.8	27.8
Proceeds from issue of corporate bond		–	250.0
Proceeds/(repayment) of unsecured bank loans		204.9	(100.2)
Interest paid		(40.6)	(28.6)
Interest received		4.4	3.8
Investments by minority interest		0.3	–
Payment of finance lease liabilities		(0.6)	(0.5)
Dividends paid		(109.4)	(103.9)
		<hr/>	<hr/>
Net cash from financing activities		(430.0)	(292.7)
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(90.9)	71.6
Opening cash and cash equivalents		109.2	38.4
Effect of exchange rate fluctuations on cash held		–	(0.8)
		<hr/>	<hr/>
Closing cash and cash equivalents	34	18.3	109.2

Company Balance Sheet

As at 26 January	Notes	2008 £m	2007 £m
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	37	2,477.7	2,477.7
Other financial assets	38	0.5	1.9
Deferred tax asset	38	0.1	0.1
		<u>2,478.3</u>	<u>2,479.7</u>
Current assets			
Trade and other receivables	38	841.2	63.4
Current tax asset		10.3	6.3
Cash and short term deposits	38	0.4	66.7
		<u>851.9</u>	<u>136.4</u>
Total assets		<u>3,330.2</u>	<u>2,616.1</u>
Current liabilities			
Bank overdrafts	39	(30.0)	–
Unsecured bank loans	39	(205.0)	–
Trade and other payables	39	(12.8)	(10.0)
Other financial liabilities	39	(53.6)	–
		<u>(301.4)</u>	<u>(10.0)</u>
Non-current liabilities			
Corporate bonds	20	(539.7)	(531.2)
Other financial liabilities	39	(12.3)	(19.2)
Other liabilities	39	(0.5)	(1.8)
		<u>(552.5)</u>	<u>(552.2)</u>
Total liabilities		<u>(853.9)</u>	<u>(562.2)</u>
Net assets		<u>2,476.3</u>	<u>2,053.9</u>
EQUITY			
Share capital	40	20.1	22.7
Share premium account	40	0.7	0.7
Capital redemption reserve	40	9.8	7.2
ESOT reserve	40	(54.8)	(76.9)
Other reserves	40	985.2	985.2
Retained earnings	41	1,515.3	1,115.0
Total equity	41	<u>2,476.3</u>	<u>2,053.9</u>

Approved by the Board on 19 March 2008

S A Wolfson Director
D W Keens Director

Company Statement of Recognised Income and Expense

For the financial year ended 26 January	Notes	2008 £m	2007 £m
<i>Income and expenses recognised directly in equity</i>			
Tax recognised directly in equity		–	(0.7)
Hedging adjustment		–	2.3
Net income recognised directly in equity		–	1.6
Profit for the year		1,075.8	685.5
Total recognised income and expense for the year	41	1,075.8	687.1

Company Cash Flow Statement

For the financial year ended 26 January	Notes	2008 £m	2007 £m
<i>Cash flows from operating activities</i>			
Operating loss		(0.1)	(0.3)
Increase in trade and other receivables		(777.9)	(61.5)
Increase/(decrease) in trade and other payables		0.3	(293.6)
		<hr/>	<hr/>
Cash generated from operations		(777.7)	(355.4)
Corporation taxes received		6.3	4.8
		<hr/>	<hr/>
Net cash from operating activities		(771.4)	(350.6)
		<hr/>	<hr/>
<i>Cash flows from investing activities</i>			
Dividends received		1,100.1	700.1
		<hr/>	<hr/>
Net cash from investing activities		1,100.1	700.1
		<hr/>	<hr/>
<i>Cash flows from financing activities</i>			
Repurchase of own shares		(512.8)	(316.3)
Purchase of own shares by ESOT		–	(24.8)
Proceeds from disposal of shares by ESOT		23.8	27.6
Interest paid		(40.0)	(27.9)
Interest received		8.4	11.7
Proceeds from issue of corporate bond		–	250.0
Proceeds/(repayment) of unsecured bank loans		205.0	(100.0)
Dividends paid		(109.4)	(103.9)
		<hr/>	<hr/>
Net cash from financing activities		(425.0)	(283.6)
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(96.3)	65.9
Opening cash and cash equivalents		66.7	0.8
		<hr/>	<hr/>
Closing cash and cash equivalents	42	(29.6)	66.7
		<hr/>	<hr/>

Accounting Policies

Basis of preparation

The financial statements of Next plc ("the Company") and Next plc and its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union 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.

Minority interests represent the portion of the profit or loss and net assets in subsidiaries that is not held by the Group and is presented in equity in the consolidated balance sheet, separately from parent shareholders' equity.

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, liabilities and contingent 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 useful lives generally applicable are summarised as follows:

Freehold and long leasehold buildings	50 years
Plant and fittings:	
Plant, machinery and building works	10 – 25 years
Fixtures and fittings	6 – 15 years
Vehicles, IT and other assets	2 – 6 years
Leasehold improvements	the period of the lease, or shorter

Accounting Policies

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.

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.

Financial assets

Financial assets are classified in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale.

Financial assets at fair value through profit or loss are financial assets held for trading. Derivatives are also categorised as held for trading unless they are designated as hedges. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortised cost. Available-for-sale financial assets are carried at fair value and are non-derivatives that are either specifically designated as such or which are not classified in any of the other categories.

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. The carrying amount of the receivable is reduced through use of an allowance account. Amounts charged to the allowance account are written off when there is no expectation of further recovery.

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.

Accounting Policies

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. Deferred tax assets are only 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 not recognised in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. 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.

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. Rental income is recognised when receivable in accordance with the terms of the lease. 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.

Accounting Policies

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 will therefore be recognised in the income statement in the same period as the hedged item.

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

Accounting Policies

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 property, plant and equipment and the resulting lease obligations are included in liabilities. The assets are depreciated over their useful lives and the interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

Significant areas of estimation and judgment

The preparation of the financial statements requires judgements, estimations and assumptions to be made that affect the reported values of assets, liabilities, revenues and expenses. The nature of estimation means that actual outcomes could differ from those estimates. Significant areas of estimation for the Group include the expected future cash flows applied in measuring impairment of trade receivables, estimated selling prices applied in determining the net realisable values of inventories and the actuarial assumptions applied in calculating the net retirement benefit obligation.

New accounting standards

The Group has adopted the disclosure requirements of IFRS 7 *Financial instruments: Disclosures* and the related amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures* in the current year. Full comparative figures are presented. The adoption of these standards has not led to any changes in the Group's accounting policies.

IFRIC 10 *Interim Financial Reporting and Impairment* also became effective in the current financial year but had no impact on the Group's accounting policies.

The Group has not adopted early IFRS 8 *Operating Segments*, which is effective for Group's financial statements from the year ending January 2010, or IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* which is effective for the Group's financial statements from the year ending January 2009. These standards are not expected to have a significant impact on the Group's accounting policies or measurement of results or net assets.

Notes to the Consolidated Financial Statements

1. Segmental analysis

The results for the financial year are for the 52 weeks to 26 January 2008 (last year 52 weeks to 27 January 2007) with the exception of Ventura, Next Sourcing and certain other activities which relate to the calendar year to 31 January.

For management purposes the Group comprises a number of divisions, the activities of which are detailed in the Chief Executive's Review. 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	
	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m
Next Retail	2,255.1	2,255.0	–	–	2,255.1	2,255.0	319.9	316.6
Next Directory	799.8	774.5	–	–	799.8	774.5	164.4	143.9
Next Brand	3,054.9	3,029.5	–	–	3,054.9	3,029.5	484.3	460.5
Next International	54.1	49.8	–	–	54.1	49.8	7.1	6.0
Next Sourcing	6.4	6.4	613.5	597.2	619.9	603.6	32.8	31.8
Ventura	203.7	190.9	6.9	6.5	210.6	197.4	21.5	20.6
Other	10.0	7.2	159.7	151.7	169.7	158.9	(8.6)	(11.4)
Eliminations	–	–	(780.1)	(755.4)	(780.1)	(755.4)	–	–
	3,329.1	3,283.8	–	–	3,329.1	3,283.8	537.1	507.5

Significant non-cash items in the Other segment operating profit include share option charges of £8.8m (2007: £8.3m) and unrealised foreign exchange gains of £2.3m (2007: losses of £2.0m).

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	
	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m
Next Retail	2,843.3	2,740.5	2,974.4	2,977.5	170.8	130.7	99.5	93.6
Next Directory	1,250.0	1,187.3	801.5	836.1	1.0	0.6	1.1	1.2
Next Brand	4,093.3	3,927.8	3,775.9	3,813.6	171.8	131.3	100.6	94.8
Next International	30.1	–	4.4	–	0.4	–	–	–
Next Sourcing	167.9	130.3	60.2	62.8	1.3	1.7	1.7	1.7
Ventura	101.1	110.5	81.3	96.5	3.3	6.5	5.6	5.5
Other	7,636.9	7,623.6	2,935.9	2,359.2	2.6	0.6	0.5	0.3
Eliminations	(10,398.9)	(10,221.2)	(5,148.2)	(4,950.4)	–	–	–	–
	1,630.4	1,571.0	1,709.5	1,381.7	179.4	140.1	108.4	102.3

Other segment assets include subsidiary investments of £2,644.2m (2007: £2,642.1m), intra-group balances of £4,655.5m (2007: £4,708.0m), and other assets held centrally of £337.2m (2007: £273.5m).

Other segment liabilities include intra-group balances of £1,637.4m (2007: £1,454.9m), group borrowings of £649.2m (2007: £593.9m) and other liabilities of £649.4m (2007: £310.4m) which cannot be attributed to reportable segments on a reasonable basis.

Notes to the Consolidated Financial Statements

1. Segmental analysis (continued)

Asset eliminations above comprise elimination of intra-group receivables of £5,040.4m (2007: 4,951.5m) and investments of £5,135.8m (2007: £5,135.5m) and reclassifications and other adjustments of £222.7m (2007: £134.2m). Liability eliminations comprise elimination of intra-group payables of £4,965.2m (2007: £4,891.7m) and reclassifications and other adjustments of £183.0m (2007: £58.7m).

By Geographical Location

	External revenue		Capital expenditure		Assets	
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m
United Kingdom	3,161.6	3,125.8	167.7	138.3	1,547.4	1,487.6
Rest of Europe	132.9	120.4	9.9	–	31.5	26.8
Middle East	23.3	26.4	0.2	0.2	14.8	2.8
Asia	11.3	11.2	1.6	1.6	36.7	51.2
	3,329.1	3,283.8	179.4	140.1	1,630.4	1,568.4
UK deferred tax					–	2.6
					1,630.4	1,571.0

2. Revenue and trading profit

	2008	2007
	£m	£m
Sale of goods	3,000.5	2,978.7
Rendering of services	313.9	291.6
Rental income	6.6	6.9
Royalties	8.1	6.6
Revenue	3,329.1	3,283.8
Cost of sales	(2,380.0)	(2,370.3)
Distribution costs	(235.6)	(222.8)
Administrative expenses	(178.2)	(183.4)
Other gains/(losses)	0.6	(1.2)
Trading profit	535.9	506.1

Rendering of services includes £104.4m (2007 £98.1m) of service charge on Directory customer receivables.

Other gains/(losses) are as follows:

	2008	2007
	£m	£m
Other financial assets at fair value through profit or loss:		
Fair value gains	–	0.8
Fair value losses	(1.7)	–
Foreign exchange derivatives:		
Held for trading	2.3	(2.0)
	0.6	(1.2)

Gains and losses on cash flow hedges removed from equity and included in profit or loss for the period comprise gains of £28.6m (2007: £6.2m) included in cost of sales and losses of £0.4m (2007: £nil) included in administrative expenses.

Notes to the Consolidated Financial Statements

3. Operating profit

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

	2008	2007
	£m	£m
Depreciation on assets:		
Owned	107.8	101.8
Leased	0.6	0.5
Loss on disposal of property, plant & equipment	5.0	2.9
Operating lease rentals:		
Minimum lease payments	164.4	154.2
Contingent rentals payable	7.2	8.6
Net foreign exchange (gains)/losses	(4.5)	0.7
Cost of inventories recognised as an expense	1,291.1	1,327.5
Write down of inventories to net realisable value	121.5	110.0
Trade receivables:		
Impairment charge	40.1	51.2
Amounts recovered	(4.5)	(2.7)
	2008	2007
	£000	£000
<i>Auditors' remuneration</i>		
Audit services – group	168	138
Other services:		
Subsidiary statutory audit	303	332
Tax	21	26
Corporate finance	60	12
Other	19	47
	571	555

Notes to the Consolidated Financial Statements

4. Staff costs and key management personnel

Total staff costs were as follows:

	2008	2007
	£m	£m
Wages and salaries	596.5	570.5
Social security costs	44.2	41.1
Other pension costs	11.9	14.1
	652.6	625.7
Share based payments expense:		
Equity settled	8.8	8.3
Cash settled	1.9	5.7
	663.3	639.7

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

	2008	2007
	£m	£m
Next Brand	481.9	470.5
Next Sourcing	26.1	27.5
Ventura	146.5	132.3
Other activities	8.8	9.4
	663.3	639.7

	Average employees		Full time equivalents	
	2008	2007	2008	2007
	Number	Number	Number	Number
Next Brand	47,698	48,746	25,915	26,262
Next Sourcing	3,656	3,725	3,656	3,725
Ventura	10,275	9,790	9,656	9,118
Other activities	122	53	118	50
	61,751	62,314	39,345	39,155

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

	2008	2007
	£m	£m
Short term employee benefits	3.3	3.6
Post-employment benefits	0.7	1.0
Share based payments	0.1	2.3
	4.1	6.9

Directors' remuneration is detailed in the Remuneration Report on pages 27 to 35.

Notes to the Consolidated Financial Statements

5. Finance income and costs

	2008	2007
	£m	£m
Interest on bank deposits	2.1	1.6
Other interest receivable	2.2	2.4
	<hr/>	<hr/>
Total finance income	4.3	4.0
	<hr/>	<hr/>
Interest on bank overdrafts	0.6	0.2
Interest on bank loans and other borrowings	41.0	32.7
Interest on obligations under finance leases	0.1	0.1
	<hr/>	<hr/>
	41.7	33.0
Unrealised (profit)/loss on interest rate swaps	(6.9)	14.6
Fair value adjustment to bond hedged by interest rate swaps	8.5	(14.5)
	<hr/>	<hr/>
Total finance costs	43.3	33.1
	<hr/>	<hr/>

6. Taxation

	2008	2007
	£m	£m
<i>Current tax:</i>		
UK corporation tax on profits of the year	147.2	168.1
Adjustments in respect of previous years	(17.8)	(12.0)
	<hr/>	<hr/>
	129.4	156.1
Overseas tax	2.9	3.5
	<hr/>	<hr/>
Total current tax	132.3	159.6
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	11.9	(12.7)
	<hr/>	<hr/>
Tax expense reported in the consolidated income statement	144.2	146.9
	<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:

	2008	2007
	%	%
UK corporation tax rate	30.0	30.0
Expenses not deductible for taxation purposes	3.8	2.6
Overseas tax differentials	(1.6)	0.6
Tax over-provided in previous years	(2.8)	(2.5)
Deferred tax rate change	(0.5)	–
	<hr/>	<hr/>
Effective total tax rate on profit before taxation	28.9	30.7
	<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:

	2008	2007
	£m	£m
<i>Current tax:</i>		
Share based payments	–	(8.3)
Foreign exchange (losses)/gains	(1.8)	2.2
Retirement benefit obligation	–	(10.9)
<i>Deferred tax:</i>		
Share based payments	2.6	3.4
Retirement benefit obligation	1.3	20.6
Fair value movements on derivative instruments	9.4	(6.1)
	<hr/>	<hr/>
Tax charge in the statement of recognised income and expense	11.5	0.9
	<hr/>	<hr/>

Deferred taxation

	2008	2007
	£m	£m
Accelerated capital allowances	40.1	36.0
Revaluation of derivatives to fair value	3.1	(6.8)
Retirement benefit obligations	(13.0)	(14.1)
Share based payments	(1.9)	(10.1)
Other temporary differences	(5.7)	(7.6)
	<hr/>	<hr/>
	22.6	(2.6)
	<hr/>	<hr/>

The movement in the year is as follows:

	2008	2007
	£m	£m
At January 2007	(2.6)	(7.8)
Charged to the income statement:		
Accelerated capital allowances	4.1	2.9
Revaluation of derivatives to fair value	0.5	(0.6)
Share based payments	5.6	(2.5)
Retirement benefit obligations	(0.2)	–
Unremitted earnings of overseas subsidiaries	–	(12.7)
Other temporary differences	1.9	0.2
Recognised directly in equity	13.3	17.9
	<hr/>	<hr/>
At January 2008	22.6	(2.6)
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements

6. Taxation (continued)

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

	Gross value 2008 £m	Unrecognised deferred tax 2008 £m	Gross value 2007 £m	Unrecognised deferred tax 2007 £m
Property development trading losses	3.7	1.1	3.7	1.1
Capital losses	103.2	29.2	97.1	29.1
	106.9	30.3	100.8	30.2

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

7. Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 27 January 2007 of 33.5p (2006: 30p) per share	73.4	69.5
Interim dividend for the year ended 26 January 2008 of 18p (2007: 15.5p) per share	35.8	34.1
	109.2	103.6
Proposed final dividend for the year ended 26 January 2008 of 37p (2007: 33.5p) per share	71.7	73.9

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 £354.1m (2007: £331.5m) being the profit for the year attributable to equity holders of the parent company and 209.9m ordinary shares of 10p each (2007: 226.9m), 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 £354.1m (2007: £331.5m) being the profit for the year attributable to equity holders of the parent company and 212.5m ordinary shares of 10p each (2007: 229.7m) 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 2.6m shares (2007: 2.8m).

As at 17 March 2008 224,715 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 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)
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2007	72.8	8.3	926.2	1,007.3
Exchange movement	–	–	0.9	0.9
Additions	1.4	–	178.0	179.4
Disposals	–	–	(33.7)	(33.7)
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2008	74.2	8.3	1,071.4	1,153.9
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
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)
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2007	8.3	1.4	453.2	462.9
Exchange movement	–	–	0.3	0.3
Provided during the year	–	–	108.4	108.4
Disposals	–	–	(28.3)	(28.3)
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2008	8.3	1.4	533.6	543.3
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount				
At January 2008	65.9	6.9	537.8	610.6
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2007	64.5	6.9	473.0	544.4
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2006	63.1	9.1	441.9	514.1
	<hr/>	<hr/>	<hr/>	<hr/>

The carrying amount of plant and fittings above includes an amount of £1.7m (2007: £2.0m) in respect of assets held under finance lease contracts.

At 26 January 2008 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £22.6m (2007: £43.2m).

Notes to the Consolidated Financial Statements

10. Intangible assets: goodwill

	£m
<i>Carrying amount</i>	
At January 2008, January 2007 and January 2006	36.2

Goodwill relates entirely to Next Sourcing and is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 26 January 2008 and 27 January 2007 was measured on the basis of value in use. As this exceeded carrying value, no impairment loss was recognised (2007: £nil).

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 (2007: four) further years with no subsequent growth assumed, and discounted at 6.0% (2007: 6.5%).

In the year ended January 2008, Next Sourcing generated an operating profit before interest of £32.8m (2007: £31.8m).

11. Interests in associates

Aggregated amounts relating to associates:

	2008	2007
	£m	£m
<i>Share of associates' revenues and profits:</i>		
Revenue	33.6	30.3
Profit	1.2	1.4
<i>Share of associates' net assets:</i>		
Total assets	7.8	8.4
Total liabilities	(4.9)	(6.2)
Carrying amount of investment	2.9	2.2

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

	Sales		Amounts receivable	
	2008	2007	2008	2007
	£m	£m	£m	£m
Choice Discount Stores Limited	4.8	4.3	0.6	0.5
Cotton Traders Limited	–	0.1	–	1.1
	4.8	4.4	0.6	1.6

12. Other investments

	2008	2007
	£m	£m
Other investments available for sale	1.0	1.0

The investments above relate to a minority interest in Gresse Street Limited, which owns a property used for The Fashion Retail Academy, a registered charity. These unlisted equity securities 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. The Group has no present intention of disposing of these assets.

Notes to the Consolidated Financial Statements

13. Inventories

	2008	2007
	£m	£m
Raw materials and work in progress	9.9	5.0
Finished goods	303.3	270.9
	313.2	275.9
Property development stocks	5.9	5.9
	319.1	281.8

14. Trade and other receivables

	2008	2007
	£m	£m
Trade and customer debtors	589.0	574.5
Less: allowance for doubtful debts	(110.2)	(106.0)
	478.8	468.5
Amounts due from associated undertakings	0.6	1.6
Other debtors	13.8	15.2
Prepayments	98.3	92.4
	591.5	577.7

Trade and customer debtors above include £0.8m (2007: £1.1m) falling due after more than one year.

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to the historical default rate for the preceding 365 days of 1.7% (2007: 3.4%).

No interest is charged on Directory customer receivables for the first 30 days from the date of the sale of goods; thereafter balances bear interest at a variable annual percentage rate of 26.49% (2007: 26.49%). Expected irrecoverable amounts on balances between 30 and 120 days overdue are provided for based on past default experience. Customer receivables which are more than 120 days overdue are considered to be impaired and are provided for in full.

The other classes within trade and other receivables do not include impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset above. The Group does not hold any collateral over these balances.

Ageing of trade receivables:

	2008	2007
	£m	£m
Current	427.5	405.4
0 – 30 days past due	55.9	62.8
30 – 60 days past due	22.0	24.2
60 – 90 days past due	9.0	10.1
90 – 120 days past due	8.8	8.9
Over 120 days past due	65.8	63.1
	589.0	574.5

Notes to the Consolidated Financial Statements

14. Trade and other receivables (continued)

Movement in the allowance for doubtful debts:

	2008	2007
	£m	£m
Opening position	106.0	82.8
Amounts charged to the income statement	40.1	51.2
Amounts written off as uncollectible	(31.4)	(25.3)
Amounts recovered during the year	(4.5)	(2.7)
	<hr/>	<hr/>
Closing position	110.2	106.0
	<hr/>	<hr/>

15. Other financial assets

	2008		2007	
	Current	Non-current	Current	Non-current
	£m	£m	£m	£m
Foreign exchange contracts	12.6	–	1.2	–
Warrants	–	0.5	–	2.2
	<hr/>	<hr/>	<hr/>	<hr/>
	12.6	0.5	1.2	2.2
	<hr/>	<hr/>	<hr/>	<hr/>

Foreign exchange contracts comprise forward contracts and options, the majority of which are used to hedge exchange risk arising from the Group's overseas purchases (Note 30). 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 on pages 29 and 30.

16. Cash and short term deposits

	2008	2007
	£m	£m
Cash at bank and in hand	55.4	55.1
Short term deposits	0.6	66.6
	<hr/>	<hr/>
	56.0	121.7
	<hr/>	<hr/>

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

17. Bank loans and overdrafts

	2008	2007
	£m	£m
Bank overdrafts and overnight borrowings	37.7	12.5
Unsecured bank loans	205.0	0.1
	<hr/>	<hr/>
	242.7	12.6
	<hr/>	<hr/>

Bank overdrafts are repayable on demand and bear interest at a margin over bank base rates. Overnight borrowings and 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 included £205.0m (2007: nil) drawn by the Company under a medium term bank revolving credit facility committed until September 2009 (Note 29).

Notes to the Consolidated Financial Statements

18. Trade and other payables

	2008	2007
	£m	£m
Trade payables	175.0	174.3
Obligations under finance leases	0.4	0.5
Other taxation and social security	56.8	65.5
Share based payment liability	–	4.5
Other creditors and accruals	420.2	376.3
	652.4	621.1

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

19. Other financial liabilities

	2008		2007	
	Current	Non-current	Current	Non-current
	£m	£m	£m	£m
Foreign exchange contracts	1.4	–	23.6	–
Interest rate swaps	–	12.3	–	19.2
Own equity purchase contracts	53.6	–	–	–
	55.0	12.3	23.6	19.2

Foreign exchange contracts comprise forward contracts and options, the majority of which are used to hedge exchange risk arising from the Group's overseas purchases (Note 30). The instruments purchased are primarily denominated in US dollars and Euros. Interest rate swaps relate to the 2013 corporate bond, see Note 20.

Own equity purchase contracts relate to outstanding liabilities measured at amortised cost arising under contingent purchase contracts for the Company's own shares which were entered into during the year, see Note 25.

20. Corporate bonds

	2008	2007
	£m	£m
Corporate bond repayable 2013	289.7	281.2
Corporate bond repayable 2016	250.0	250.0
	539.7	531.2

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 30) and its carrying value in the balance sheet is adjusted accordingly. The resulting effective interest rates payable on the bond are as follows:

Effective interest rate	Repricing	2008	2007
		£m	£m
LIBOR + 0.9%	September 2013	250.0	200.0
4.8%	September 2007	–	50.0
4.9%	September 2008	50.0	50.0
		300.0	300.0

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

Notes to the Consolidated Financial Statements

21. Obligations under finance leases

	2008	2007
	£m	£m
Future minimum payments due:		
Within one year	0.5	0.6
In two to five years	1.1	1.4
Over five years	0.4	0.6
	<u>2.0</u>	<u>2.6</u>
Less: finance charges allocated to future periods	(0.2)	(0.3)
Present value of minimum lease payments	<u>1.8</u>	<u>2.3</u>

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

Within one year	0.4	0.5
In two to five years	1.0	1.3
Over five years	0.4	0.5
	<u>1.8</u>	<u>2.3</u>

The Group uses finance leases to acquire certain plant and machinery. Obligations under finance leases carry interest at an average effective rate of 3.9% (2007: 4.0%).

22. 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 after September 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:

	2008			2007		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Current service cost	9.4	0.5	9.9	15.7	0.5	16.2
Past service cost	–	–	–	(4.3)	–	(4.3)
Interest cost on benefit obligation	22.2	0.3	22.5	19.3	0.4	19.7
Expected return on plan assets	(22.7)	–	(22.7)	(20.1)	–	(20.1)
	<u>8.9</u>	<u>0.8</u>	<u>9.7</u>	<u>10.6</u>	<u>0.9</u>	<u>11.5</u>
Net benefit expense recognised in administration expenses						
Actual return on plan assets	(0.5)	–	(0.5)	25.5	–	25.5

Notes to the Consolidated Financial Statements

22. Retirement benefit plans (continued)

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

	2008			2007		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening position	421.7	5.7	427.4	417.4	11.2	428.6
Current service cost	9.4	0.5	9.9	15.7	0.5	16.2
Past service cost	–	–	–	(4.3)	–	(4.3)
Interest cost	22.2	0.3	22.5	19.3	0.4	19.7
Employee contributions	2.7	–	2.7	2.9	–	2.9
Benefits paid	(9.2)	–	(9.2)	(8.6)	–	(8.6)
Transfer of liabilities	–	–	–	5.8	(5.8)	–
Actuarial gains	(24.6)	(0.3)	(24.9)	(26.5)	(0.6)	(27.1)
Closing retirement benefit obligation	422.2	6.2	428.4	421.7	5.7	427.4

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

	2008			2007		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening position	380.4	–	380.4	313.0	–	313.0
Employer contributions	9.2	–	9.2	47.6	–	47.6
Employee contributions	2.7	–	2.7	2.9	–	2.9
Benefits paid	(9.2)	–	(9.2)	(8.6)	–	(8.6)
Expected return on assets	22.7	–	22.7	20.1	–	20.1
Actuarial (losses)/gains	(23.2)	–	(23.2)	5.4	–	5.4
	382.6	–	382.6	380.4	–	380.4

The fair value of plan assets was as follows:

	2008		2007	
	£m	%	£m	%
Equities	230.7	60.3	235.7	62.0
Bonds	131.2	34.3	89.2	23.4
Property	14.4	3.8	15.7	4.1
Other	6.3	1.6	39.8	10.5
	382.6	100.0	380.4	100.0

	2008			2007		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Total assets	382.6	–	382.6	380.4	–	380.4
Benefit obligation	(422.2)	(6.2)	(428.4)	(421.7)	(5.7)	(427.4)
Net retirement benefit obligation	(39.6)	(6.2)	(45.8)	(41.3)	(5.7)	(47.0)

Notes to the Consolidated Financial Statements

22. Retirement benefit plans (continued)

The actuarial valuation of the defined benefit section was undertaken by an independent qualified actuary as at 26 January 2008 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

	2008	2007
Discount rate	6.15%	5.30%
Salary increases	5.00%	4.50%
Inflation	3.50%	3.00%
Pension increases	3.50%	3.00%
Expected rate of return on assets		
Equities	7.30%	6.55%
Bonds	6.05%	5.05%
Property	7.05%	6.30%
Other	4.75%	4.25%
Average	6.82%	5.95%
Life expectancy at age 65 (years)		
Pensioner aged 65 – male	22.7	22.7
Pensioner aged 65 – female	24.8	24.7
Non-pensioner aged 40 – male	24.1	24.1
Non-pensioner aged 40 – female	26.0	26.0

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. The Group presently makes employer contributions at 17.5%. Total employer contributions of £11.0m (2007: £49.4m) were made during the year, including £nil (2007: £32.5m) in respect of the deficit on the defined benefit section and contributions of £1.8m (2007: £1.8m) in respect of the defined contribution section. In addition to regular contributions to the defined benefit estimated at £9.0m next year, the Group is committed to making further contributions in respect of the plan deficit totalling £50m over the period to March 2011.

At the year end, outstanding contributions to the defined contribution section included in other creditors were £0.3m (2007: £0.3m).

History of experience gains and losses:

	2008	2007	2006	2005
	£m	£m	£m	£m
Fair value of plan assets	382.6	380.4	313.0	235.4
Present value of defined benefit obligation	(428.4)	(427.4)	(428.6)	(328.0)
Deficit in the plan	(45.8)	(47.0)	(115.6)	(92.6)
Experience gains/(losses) arising on plan liabilities	4.2	(16.9)	9.6	5.7
Experience (losses)/gains arising on plan assets	(23.2)	5.4	37.6	4.8

At January 2008 cumulative actuarial losses recognised in the statement of total recognised income and expense since transition to IFRS at 1 February 2004 were £11.1m (2007: losses of £12.8m). It is not possible to determine the actuarial gains or losses that would have been recognised prior to transition.

Notes to the Consolidated Financial Statements

23. Provisions

	Vacant property costs £m
At January 2007	9.5
Additional provision in the year	3.8
Utilisation of provision	(1.9)
Release of provision	(2.0)
	<hr/>
At January 2008	9.4

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 (2007: seven) years.

24. Other non-current liabilities

	2008 £m	2007 £m
Obligations under finance leases	1.4	1.8
Share based payment liability	8.9	7.6
Other creditors and accruals	26.9	26.9
	<hr/>	<hr/>
	37.2	36.3

25. Share capital

	2008 '000	2007 '000	2008 £m	2007 £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 2007	227,054	246,100	22.7	24.6
Purchased for cancellation	(26,057)	(19,046)	(2.6)	(1.9)
	<hr/>	<hr/>	<hr/>	<hr/>
At January 2008	200,997	227,054	20.1	22.7

During the year the Company purchased for cancellation 21,207,243 (2007: 14,746,199) of its own ordinary shares of 10p each in the open market at a cost of £412.9m (2007: £246.3m). The Company also purchased for cancellation 4,850,000 (2007: 4,300,000) of its own ordinary shares of 10p each under off-market contingent purchase contracts at a cost of £101.5m (2007: £70.0m).

At 26 January 2008 the Company was party to three off-market contingent purchase contracts under which a maximum of 3,900,000 of its own shares might be purchased for cancellation at a maximum potential cost of £53.6m (Note 19). The purchase of these shares is dependent upon the Company's share price not reaching a pre-determined level during the remainder of each contract period. The Company was not party to any such contracts at 27 January 2007.

Notes to the Consolidated Financial Statements

26. 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
At January 2006	24.6	0.7	5.3	(89.3)	2.8	3.0
Total recognised income and expense for the year	–	–	–	–	(22.7)	(1.0)
Shares purchased for cancellation	(1.9)	–	1.9	–	–	–
Shares purchased by ESOT	–	–	–	(24.8)	–	–
Shares issued by ESOT	–	–	–	37.2	–	–
Share option charge	–	–	–	–	–	–
Realised property profits	–	–	–	–	–	–
Equity dividends paid	–	–	–	–	–	–
At January 2007	22.7	0.7	7.2	(76.9)	(19.9)	2.0
Total recognised income and expense for the year	–	–	–	–	31.2	0.6
Issue of shares in subsidiary	–	–	–	–	–	–
Shares purchased for cancellation	(2.6)	–	2.6	–	–	–
Shares issued by ESOT	–	–	–	22.1	–	–
Share option charge	–	–	–	–	–	–
Realised property profits	–	–	–	–	–	–
Equity dividends paid	–	–	–	–	–	–
At January 2008	20.1	0.7	9.8	(54.8)	11.3	2.6

	Other reserves £m	Retained earnings £m	Shareholders' equity £m	Minority interest £m	Total equity £m
At January 2006	(1,441.7)	1,750.8	256.2	–	256.2
Total recognised income and expense for the year	–	365.4	341.7	–	341.7
Shares purchased for cancellation	–	(316.3)	(316.3)	–	(316.3)
Shares purchased by ESOT	–	–	(24.8)	–	(24.8)
Shares issued by ESOT	–	(9.4)	27.8	–	27.8
Share option charge	–	8.3	8.3	–	8.3
Realised property profits	(2.0)	2.0	–	–	–
Equity dividends paid	–	(103.6)	(103.6)	–	(103.6)
At January 2007	(1,443.7)	1,697.2	189.3	–	189.3
Total recognised income and expense for the year	–	344.3	376.1	(0.2)	375.9
Issue of shares in subsidiary	–	–	–	0.3	0.3
Shares purchased for cancellation	–	(568.0)	(568.0)	–	(568.0)
Shares issued by ESOT	–	1.7	23.8	–	23.8
Share option charge	–	8.8	8.8	–	8.8
Realised property profits	(0.1)	0.1	–	–	–
Equity dividends paid	–	(109.2)	(109.2)	–	(109.2)
At January 2008	(1,443.8)	1,374.9	(79.2)	0.1	(79.1)

Other reserves in the consolidated balance sheet comprise 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 (£5.1m; 2007: £5.2m).

Notes to the Consolidated Financial Statements

27. Equity settled share based payments

The Remuneration Report on page 30 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:

	2008		2007	
	No. of options	Weighted average exercise price (p)	No. of options	Weighted average exercise price (p)
Outstanding at beginning of period	9,230,741	1352	10,566,843	1128
Granted during the period	2,666,263	1979	3,018,893	1588
Forfeited during the period	(645,954)	1479	(1,125,816)	1302
Exercised during the period	(1,864,529)	1281	(3,229,179)	857
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the period	9,386,521	1535	9,230,741	1352
	<hr/>	<hr/>	<hr/>	<hr/>
Exercisable at the end of the period	1,225,415	1148	885,968	859

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was 2112p (2007: 1726p). Options outstanding at 26 January 2008 are exercisable at prices ranging between 0p and 2189p (2007: 432p – 1620p) and have a weighted average remaining contractual life of 6.0 years (2007: 6.1 years), as analysed in the table below:

	2008		2007	
	No. of options outstanding	Weighted average remaining contractual life (years)	No. of options outstanding	Weighted average remaining contractual life (years)
Exercise price range				
0p – 727p	438,886	1.0	572,118	1.9
889p – 920p	490,441	3.4	676,111	4.5
1058p – 1131p	825,799	2.3	1,019,804	3.4
1302p – 1347p	280,843	2.0	795,498	2.0
1412p – 1495p	2,296,000	7.0	3,379,500	7.8
1514p – 1620p	3,379,888	5.9	2,787,710	7.5
2189p	1,674,664	9.2	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	9,386,521	6.0	9,230,741	6.1

Included in the above balances were 378,731 options (2007: 594,989) that were granted prior to 7 November 2002 which have not been subsequently modified and are therefore not required to be recognised in accordance with IFRS 2.

Notes to the Consolidated Financial Statements

27. Equity settled share based payments (continued)

The fair value of management and sharesave options granted is calculated at the date of grant using a Black-Scholes option pricing model. The following table lists the inputs to the model used for options granted in the years ended 27 January 2007 and 26 January 2008 based on information at the date of grant:

Management share options	2008	2007
Weighted average share price at date of grant (p)	2189	1620
Weighted average exercise price (p)	2189	1620
Volatility (%)	21.00	25.00
Expected life (years)	4.00	4.00
Risk free rate (%)	5.37	4.56
Dividend yield (%)	2.24	2.72
Weighted average fair value (£)	4.45	3.31
Sharesave plans	2008	2007
Weighted average share price at date of grant (p)	1969	1892
Weighted average exercise price (p)	1576	1514
Volatility (%)	23.31	21.44
Expected life (years)	3.53	3.58
Risk free rate (%)	4.98	4.99
Dividend yield (%)	2.49	2.38
Weighted average fair value (£)	5.72	5.45

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.

28. 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 26 January 2008 the ESOT held 4,587,161 (2007: 6,441,692) ordinary shares of 10p each in the Company, the market value of which amounted to £63.1m (2007: £125.4m). Details of outstanding share options are shown in Note 27.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOT at 26 January 2008 and 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.

29. Financial instruments: risk management

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. Treasury policy is reviewed and approved by the Board and specifies the parameters within which treasury operations must be conducted, including authorised counterparties, instrument types and transaction limits, and principles governing the management of liquidity, interest and foreign currency risks.

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.

Notes to the Consolidated Financial Statements

29. Financial instruments: risk management (continued)

Liquidity risk

The Group manages its cash and borrowing requirements centrally to minimise net interest expense within risk parameters agreed by the Board, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses. The forecast cash and borrowings profile of the Group is monitored to ensure that adequate headroom remains under committed borrowing facilities.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Group's financial liabilities:

2008	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Bank loans and overdrafts	246.8	–	–	–	246.8
Trade and other payables	354.4	–	–	–	354.4
Finance lease liabilities	0.5	0.4	0.7	0.4	2.0
Other liabilities	53.6	–	8.9	–	62.5
Corporate bonds	30.4	30.4	91.3	624.5	776.6
	685.7	30.8	100.9	624.9	1,442.3
Derivatives: net settled	3.1	2.0	6.2	2.0	13.3
Derivatives: gross settled					
Cash inflows	(420.6)	(7.6)	–	–	(428.2)
Cash outflows	410.4	6.8	–	–	417.2
Total cash flows	678.6	32.0	107.1	626.9	1,444.6
2007	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Bank loans and overdrafts	12.6	–	–	–	12.6
Trade and other payables	349.1	–	–	–	349.1
Finance lease liabilities	0.6	0.5	0.9	0.6	2.6
Other liabilities	–	–	7.6	–	7.6
Corporate bonds	30.4	30.4	91.3	654.9	807.0
	392.7	30.9	99.8	655.5	1,178.9
Derivatives: net settled	1.6	2.8	10.4	7.1	21.9
Derivatives: gross settled					
Cash inflows	(555.3)	(0.4)	–	–	(555.7)
Cash outflows	579.1	0.4	–	–	579.5
Total cash flows	418.1	33.7	110.2	662.6	1,224.6

At 26 January 2008 the Group had committed borrowing facilities of £450.0m (2007: £450.0m) in respect of which all conditions precedent have been met, £300.0m of which expires in September 2009 and £150.0m in November 2010. £205.0m of the 2009 facility was drawn down at 26 January 2008 (2007: £nil).

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 forecast cash and borrowings profile of the Group is monitored regularly to assess the mix of fixed and variable rate debt, and the Group uses interest rate derivatives where appropriate to reduce its exposure to changes in interest rates and the economic environment.

Notes to the Consolidated Financial Statements

29. Financial instruments: risk management (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 are hedged for up to 18 months ahead in order to fix the cost in sterling. This hedging activity involves the use of spot, forward and option contracts. The Group's net exposure to foreign currencies is illustrated by the sensitivity analysis in Note 33.

The market value of outstanding foreign exchange derivatives is reported regularly at Board level, and reviewed in conjunction with percentage cover taken by season and current market conditions in order to assess and manage the Group's ongoing exposure.

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.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the balance sheet date are detailed in the table below. The Group's net exposure to foreign currencies, taking hedging activities into account is illustrated by the sensitivity analysis in Note 33.

	Assets		Liabilities	
	2008	2007	2008	2007
	£m	£m	£m	£m
US dollar	7.1	5.1	(87.2)	(96.9)
Euro	7.5	3.9	(20.7)	(15.4)
Other	6.9	4.4	(7.7)	(6.3)

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. The concentration of credit risk is limited due to the customer base being large and unrelated.

The Group's outstanding receivables balances are detailed in Note 14.

Capital risk

The capital structure of the Group consists of debt, as analysed in Note 34, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shown in Note 26. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not subject to any externally imposed capital requirements.

As part of its strategy for delivering long term sustainable growth in earnings per share, the Group has been returning capital to shareholders by way of share buy backs in addition to dividends. Share buy backs are transacted through both on-market purchases and contingent contracts for off-market share purchases.

Notes to the Consolidated Financial Statements

30. Financial instruments: hedging activities

Cash flow hedges

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

	2008	2007
	£m	£m
Derivatives in designated hedging relationships	11.3	(19.9)
Other foreign exchange derivatives	(0.1)	(2.5)
	<hr/>	<hr/>
Total foreign exchange derivatives	11.2	(22.4)
	<hr/>	<hr/>

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

	2008	2007
	£m	£m
Notional amount of outstanding foreign currency contracts	428.2	555.7
	<hr/>	<hr/>

Fair value hedges

At 27 January 2007 and 26 January 2008, 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 20. The fair values of the interest rate swaps are as follows:

	2008	2007
	£m	£m
Derivatives in designated hedging relationships	(12.3)	(19.4)
Other interest rate derivatives	–	0.2
	<hr/>	<hr/>
Total interest rate derivatives	(12.3)	(19.2)
	<hr/>	<hr/>

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

31. Financial instruments: categories

	2008	2007
	£m	£m
<i>Financial assets</i>		
Fair value through profit and loss – held for trading	1.3	3.0
Derivatives in designated hedging relationships	11.8	0.6
Loans and receivables	491.1	483.6
Cash and short term deposits	56.0	121.7
Available for sale financial assets	1.0	1.0
<i>Financial liabilities</i>		
Fair value through profit and loss – held for trading	(0.9)	(3.1)
Derivatives in designated hedging relationships	(12.8)	(39.9)
Corporate bond	(539.7)	(531.2)
Amortised cost	(707.2)	(415.9)
Finance lease obligations	(1.8)	(2.3)

32. 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:

	2008		2007	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Financial liabilities</i>				
Corporate bonds	539.7	515.8	531.2	538.3

The fair values of corporate bonds are their market values at the balance sheet date.

33. Financial instruments: sensitivity analysis

Foreign currency sensitivity analysis

The Group's principal foreign currency exposures are to US dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and equity to a 10% increase and decrease in the US dollar/Sterling and Euro/Sterling exchange rates at the year end date, assuming all other variables remain unchanged. The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change.

The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the fair value reserve in equity and the fair value of the hedging derivatives. For foreign exchange derivatives which are not designated hedges, movements in exchange rates impact the income statement.

Positive figures represent an increase in profit or equity.

	Income statement		Equity	
	2008 £m	2007 £m	2008 £m	2007 £m
<i>Sterling strengthens by 10%</i>				
US dollar	1.4	1.4	(18.8)	(24.2)
Euro	0.7	(0.1)	(1.3)	(5.2)
<i>Sterling weakens by 10%</i>				
US dollar	(3.5)	(0.9)	18.5	25.2
Euro	(0.9)	0.1	1.2	5.2

Notes to the Consolidated Financial Statements

33. Financial instruments: sensitivity analysis (continued)

Year end exchange rates applied in the above analysis are US dollar 1.98 (2007: 1.96) and Euro 1.35 (2007: 1.52). Strengthening and weakening of Sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives which do not qualify for hedge accounting.

Interest rate sensitivity analysis

The table below illustrates the hypothetical sensitivity of the Group's reported profit and equity to a 0.5% increase or decrease in interest rates, assuming all other variables were unchanged. The sensitivity rate of 0.5% represents the Directors' assessment of a reasonably possible change.

The analysis has been prepared using the following assumptions:

- For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to have been outstanding for the whole year.
- Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.

Positive figures represent an increase in profit or equity.

	Income statement		Equity	
	2008	2007	2008	2007
	£m	£m	£m	£m
Interest rate increase of 0.5%	(0.6)	1.3	(0.6)	1.3
Interest rate decrease of 0.5%	0.6	(1.3)	0.6	(1.3)

34. Analysis of net debt

	January 2007	Cash flow	Other non-cash changes	January 2008
	£m	£m	£m	£m
Cash and short term deposits	121.7			56.0
Overdrafts	(12.5)			(37.7)
Cash and cash equivalents	109.2	(90.9)	–	18.3
Unsecured bank loans	(0.1)	(204.9)	–	(205.0)
Corporate bonds	(531.2)	–	(8.5)	(539.7)
Fair value hedges of corporate bonds	(19.4)	–	7.1	(12.3)
Finance leases	(2.3)	0.6	(0.1)	(1.8)
Total net debt	(443.8)	(295.2)	(1.5)	(740.5)

Notes to the Consolidated Financial Statements

34. Analysis of net debt (continued)

	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)
	<hr/>			<hr/>
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 bonds	(4.5)	–	(14.9)	(19.4)
Finance leases	(2.6)	0.5	(0.2)	(2.3)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(367.1)	(77.7)	1.0	(443.8)
	<hr/>	<hr/>	<hr/>	<hr/>

35. Operating lease commitments

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

	2008 £m	2007 £m
Within one year	195.0	186.3
After one year but not more than five years	707.2	685.4
More than five years	1,161.9	1,230.7
	<hr/>	<hr/>
	2,064.1	2,102.4
	<hr/>	<hr/>

At 26 January 2008, future rentals receivable under non-cancellable sub-leases where the Group is the lessor were £25.5m (2007: £26.2m).

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

36. 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 £1,075.8m (2007: £685.5m).

37. Investments in subsidiaries

Details of the Company's subsidiaries are given in Group Companies on page 79.

38. Current and non-current assets

At the balance sheet date, trade and other receivables comprise £838.0m (2007: £59.6m) of amounts due from subsidiary undertakings and £3.2m (2007: £3.8m) of other debtors. The deferred tax asset of £0.1m in 2008 and 2007 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.

39. Current and non-current liabilities

Trade and other payables comprise £12.8m (2007: £10.0m) of other creditors and accruals. Other current financial liabilities comprise amounts payable under contingent purchase contracts for the Company's own shares. The carrying amount of these liabilities approximates to their fair value.

Other non-current financial liabilities comprise interest rate derivative instruments carried at fair value; see Notes 20 and 30. Other non-current liabilities relate to share based payment liabilities.

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

40. Movements on reserves

The movements on share capital, share premium account, capital redemption reserve and ESOT reserve are disclosed in Note 26 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 28 January 2006, 27 January 2007 and 26 January 2008.

41. Reconciliation of movements in equity

	Retained earnings £m	Total equity £m
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)
	<hr/>	<hr/>
At January 2007	1,115.0	2,053.9
Total recognised income and expense for the year	1,075.8	1,075.8
Shares purchased for cancellation	(568.0)	(568.0)
Shares issued by ESOT	1.7	23.8
Equity dividends paid	(109.2)	(109.2)
	<hr/>	<hr/>
At January 2008	1,515.3	2,476.3

Notes to the Parent Company Financial Statements

42. Analysis of net debt

	January 2007 £m	Cash flow £m	Other non-cash changes £m	January 2008 £m
Cash and short term deposits	66.7			0.4
Overdrafts	–			(30.0)
	<hr/>			<hr/>
Cash and cash equivalents	66.7	(96.3)	–	(29.6)
Unsecured bank loans	–	(205.0)	–	(205.0)
Corporate bonds	(531.2)	–	(8.5)	(539.7)
Fair value hedges of corporate bonds	(19.4)	–	7.1	(12.3)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(483.9)	(301.3)	(1.4)	(786.6)
	<hr/>	<hr/>	<hr/>	<hr/>
	January 2006 £m	Cash flow £m	Other non-cash changes £m	January 2007 £m
Cash and short term deposits	0.8			66.7
Overdrafts	–			–
	<hr/>			<hr/>
Cash and cash equivalents	0.8	65.9	–	66.7
Unsecured bank loans	(100.0)	100.0	–	–
Corporate bond	(298.1)	(250.0)	16.9	(531.2)
Fair value hedges of corporate bonds	(4.5)	–	(14.9)	(19.4)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(401.8)	(84.1)	2.0	(483.9)
	<hr/>	<hr/>	<hr/>	<hr/>

43. Financial instruments

The Company is exposed to liquidity, interest rate, credit and capital risks and adopts the same approach to the management of these risks as the Group, as detailed in Note 29.

The Company is not exposed to foreign currency risk as it has no foreign currency assets or liabilities.

Trade and other receivables primarily comprise amounts due from group companies and therefore the Company's exposure to credit risk is limited; none of these assets are overdue or impaired.

The Company hedges its exposure to interest rate risk associated with its 2013 £300m 5.25% fixed rate corporate bond as detailed in Notes 20 and 30. The fair values of both of the Company's corporate bonds are shown in Note 32.

Notes to the Parent Company Financial Statements

43. Financial instruments (continued)

The following table shows the Company's sensitivity to movements in interest rates under the same assumptions as detailed in Note 33:

	Income statement		Equity	
	2008	2007	2008	2007
	£m	£m	£m	£m
Interest rate increase of 0.5%	(0.8)	1.1	(0.8)	1.1
Interest rate decrease of 0.5%	0.8	(1.1)	0.8	(1.1)

The following table shows the carrying values of the Company's financial instruments by category:

	2008	2007
	£m	£m
<i>Financial assets</i>		
Fair value through profit and loss – held for trading	0.5	1.9
Loans and receivables	841.2	63.4
Cash and short term deposits	0.4	66.7
Available for sale financial assets	2,477.7	2,477.7
<i>Financial liabilities</i>		
Fair value through profit and loss – held for trading	(0.5)	(1.6)
Derivatives in designated hedging relationships	(12.3)	(19.4)
Corporate bonds	(539.7)	(531.2)
Amortised cost	(301.4)	(10.0)

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows of the Company's financial liabilities:

2008	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Bank loans and overdrafts	239.1	–	–	–	239.1
Trade and other payables	1.7	–	–	–	1.7
Other liabilities	53.6	–	0.5	–	54.1
Corporate bonds	30.4	30.4	91.3	624.5	776.6
	324.8	30.4	91.8	624.5	1,071.5
Derivatives: net settled	3.1	2.0	6.2	2.0	13.3
Total cash flows	327.9	32.4	98.0	626.5	1,084.8
2007	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
Bank loans and overdrafts	–	–	–	–	–
Trade and other payables	–	–	–	–	–
Other liabilities	–	–	1.9	–	1.9
Corporate bonds	30.4	30.4	91.3	654.9	807.0
	30.4	30.4	93.2	654.9	808.9
Derivatives: net settled	1.6	2.8	10.4	7.1	21.9
Total cash flows	32.0	33.2	103.6	662.0	830.8

Notes to the Parent Company Financial Statements

44. Related party transactions

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

	2008	2007
	£m	£m
Transactions with subsidiary undertakings:		
Recharge of costs	(653.5)	(195.1)
Funds advanced/(borrowed)	325.3	(163.3)
Dividends received	1,100.1	700.1
Interest receivable	6.5	10.8
Amounts due from subsidiary undertakings	838.0	59.6

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 26 January 2008. 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 (trading as Ventura)	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

Half Year and Sector Analysis

Year ended January

	First half £m	Second half £m	2008 £m	First half £m	Second half £m	2007 £m
Revenue						
Next Retail	1,028.7	1,226.4	2,255.1	1,029.7	1,225.3	2,255.0
Next Directory	371.8	428.0	799.8	359.4	415.1	774.5
Next International	25.3	28.8	54.1	22.0	27.8	49.8
Next Sourcing	2.5	3.9	6.4	2.9	3.5	6.4
Ventura	104.6	99.1	203.7	92.7	98.2	190.9
Other activities	5.1	4.9	10.0	3.8	3.4	7.2
	1,538.0	1,791.1	3,329.1	1,510.5	1,773.3	3,283.8
Profit before tax						
Next Retail	112.5	207.4	319.9	111.1	205.5	316.6
Next Directory	73.8	90.6	164.4	59.6	84.3	143.9
Next International	3.4	3.7	7.1	2.5	3.5	6.0
Next Sourcing	16.4	16.4	32.8	15.6	16.2	31.8
Ventura	11.0	10.5	21.5	9.7	10.9	20.6
Other activities	(4.4)	(4.2)	(8.6)	(6.8)	(4.6)	(11.4)
Operating profit	212.7	324.4	537.1	191.7	315.8	507.5
Net finance costs	(14.5)	(24.5)	(39.0)	(12.8)	(16.3)	(29.1)
Profit before tax	198.2	299.9	498.1	178.9	299.5	478.4

Five Year History

Year ended January

	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m
	IFRS	IFRS	IFRS	UK GAAP	UK GAAP
Revenue	3,329.1	3,283.8	3,106.2	2,858.5	2,516.0
Operating profit	537.1	507.5	470.7	442.5	375.5
Net finance costs	(39.0)	(29.1)	(21.6)	(18.2)	(17.3)
Profit before taxation	498.1	478.4	449.1	424.3	358.2
Taxation	(144.2)	(146.9)	(135.6)	(118.9)	(108.1)
Profit after taxation	353.9	331.5	313.5	305.4	250.1
Total equity	(79.1)	189.3	256.2	276.5	155.1
Shares purchased for cancellation	26.1m	19.0m	15.0m	4.0m	21.7m
Dividend per share	55.0p	49.0p	44.0p	41.0p	35.0p
Earnings per share	168.7p	146.1p	127.4p	120.2p	93.9p

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 given that the Annual General Meeting of Next plc will be held at the Belmont House Hotel, De Montfort Street, Leicester LE1 7GR on Tuesday 13 May 2008 at 11.00 a.m. at which the following resolutions will be proposed; resolutions 1 to 11 as Ordinary Resolutions and 12 to 15 as Special Resolutions.

Further information on these resolutions can be found in the Directors' Report and Business Review on pages 17 to 20 and in the appendices to this Notice.

- 1 To receive and adopt the accounts and reports of the directors and auditors for the period ended 26 January 2008.
- 2 To approve the remuneration report for the period ended 26 January 2008.
- 3 To declare a final dividend of 37p per share in respect of the period ended 26 January 2008.
- 4 To re-elect Simon Wolfson as a director who retires by rotation according to Article 91.
- 5 To re-elect Andrew Varley as a director who retires by rotation according to Article 91.
- 6 To re-elect Jonathan Dawson as a director who retires by rotation according to Article 91.
- 7 To re-elect Christine Cross as a director who retires by rotation according to Article 91.
- 8 To elect Steve Barber as a director who retires according to Article 97 having been appointed by the Board during the year.
- 9 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 23 of the Annual Report.

10 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 85 to 86, be and is approved and the Directors be and are 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 2009.

11 Authority to allot shares under Section 80 Companies Act 1985

That the Directors be and they are 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 £6,600,000 such authority to expire at the date of the Company's Annual General Meeting in 2009 or, if earlier, on 26 July 2009 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 revoked (to the extent that they have not been previously utilised).

Notice of Meeting

12 Authority to allot shares under Section 95 Companies Act 1985

That, subject to the passing of Resolution 11 set out in the Notice of this Meeting, the Directors be and are 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(2) of the Act) for cash and allot equity securities (as defined in Section 94(3A) of the Act) for cash in either case as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of ordinary shareholders on the register on a date fixed by the Directors 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 on that date 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 up to an aggregate nominal value of £975,000 being less than 5% of the issued ordinary share capital outstanding at 17 March 2008 and shall expire at the date of the Company's Annual General Meeting in 2009 or, if earlier, on 26 July 2009 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

13 On-market purchase of own shares

That in accordance with Article 46 of the Articles of Association of the Company and Section 166 of the Companies Act 1985 (the "Act"), the Company be 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 29,900,000 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 14 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) the conclusion of the Annual General Meeting of the Company held in 2009, and
 - (b) 26 July 2009; 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

14 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 approved and the Company be and is 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 86 to 88 (the authority conferred by this special resolution to expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company held in 2009 and 26 July 2009, 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 13 above.

15 New Articles of Association

That with effect from 1 October 2008 the articles of association produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the articles of association of the Company in substitution for and to the exclusion of the current articles of association of the Company.

The principal changes introduced in the new articles are set out in Appendix 3 on pages 88 to 90.

By order of the Board.

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

9 April 2008

Notice of Meeting

APPENDIX 1

FURTHER INFORMATION ON RESOLUTION 10: NEXT RISK/REWARD INVESTMENT PLAN (the "Plan")

As noted on page 18 of the Directors' Report and Business Review, the Directors request authority to implement a new risk/reward plan in the current year and shareholders' approval is sought for the Company to offer its key executives an opportunity to participate. A similar plan was last implemented in July 2005 (the "2005 Plan"), details of which are on pages 29 and 30 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, which are unchanged from the 2005 Plan and that the plan shareholders approved at the 2007 Annual General Meeting ("AGM"), 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 trust would only be distributed (either in Next shares and/or cash) to those participants who have remained with Next (save to the extent described below). This continued employment condition would therefore 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 2008 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 any Plan offered in 2008 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 2009 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 the lower of £2 million or three times the personal investments of participants. The benefits provided by Next under the Plan will not be pensionable.

Notice of Meeting

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

Based on a share price of £12.00 and current market conditions, a target price range as for the 2008 investments is likely to be £16.00 to £20.00. 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 £16.00 is achieved in the four year investment period, representing an increase in shareholder value of at least £0.8 billion, the executives would lose all of their investments. If the Final Share Price reaches £20.00, the increase in shareholder value would be around £1.6 billion, whilst executives would receive the maximum return of approximately 13 times their personal investment. Against a share price of around £12.00 and market capitalisation of £2.4 billion, the Board believes that, in conjunction with LTIP incentives, implementation of the Plan in 2008 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 2009 AGM.

APPENDIX 2

FURTHER INFORMATION ON RESOLUTION 14: CONTINGENT PURCHASE CONTRACTS

As noted on pages 19 and 20 in the Directors' Report and Business Review, approval will be sought from shareholders to renew the Company's authority to make off-market purchases of its shares.

By virtue of special resolution number 11 passed at the Company's Annual General Meeting ("AGM") on 16 May 2007 shareholder authority was given to the Company to make on-market purchases of shares for cancellation. This authority was limited to a maximum of 34 million shares and expires on the earlier of the date of the AGM held in 2008 or 16 August 2008. 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, Deutsche Bank AG and Barclays Bank plc (the "Bank(s)"). This authority was limited to a maximum of 10 million shares and expires on the earlier of the date of the AGM to be held in 2008 or 16 August 2008. Since the granting of those authorities up to the 17 March 2008, the Company has bought back 27,007,243 shares for cancellation, representing 11.9% of its issued share capital as at the date of the 2007 AGM, at a total cost £526.6 million. Of these purchases, 5,800,000 shares have been bought pursuant to contingent purchase contracts at a total cost of £108.8 million, a discount of £9.8 million (8.2%) to share prices prevailing when the relevant contract was entered into.

Notice of Meeting

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

In order to achieve maximum flexibility in its share purchase activities, the Company 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 2007 AGM, the Company entered into agreements with the 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 the 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 an ordinary 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 Act, the Programme Agreements and Contingent Forward Trades are contingent purchase contracts to purchase shares by the Company off-market. Accordingly resolution 14, 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 the Banks. The Programme Agreements will have a duration of the shorter of the period to the date of the AGM to be held in 2009 or 26 July 2009 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 5.0% of its issued share capital at 26 January 2008;
- the total cost of shares that the Company would be permitted to purchase pursuant to this authority may not exceed £150 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;

Notice of Meeting

- the Forward Price will be no more than 99% of the share price at the time the Contingent Forward Trade was effected;
- the minimum price that can be paid for any share is £0.10; and
- only one Contingent Forward Trade will be entered into on any particular day.

Subject to the limits set out above, the Company will select the Suspension Level and the duration of each CFT, and the Forward Price will be determined by the relevant Bank. Shares purchased via the Programme Agreements will reduce the number of shares that the Company may purchase under any authority granted at the AGM on 13 May 2008 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 2009 or on 26 July 2009, 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).

A copy of each of the Programme Agreements will be available at the AGM on 13 May 2008. 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 Allen & Overy LLP, One Bishops Square, London, E1 6AO during usual business hours until the date of the AGM and at the Meeting itself.

The total number of share options to subscribe for shares outstanding at 17 March 2008 was 7,078,924. This represents 4.5% 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 17 March 2008 would represent 5.3% of the reduced issued share capital.

APPENDIX 3

FURTHER INFORMATION ON RESOLUTION 15: NEW ARTICLES OF ASSOCIATION

It is proposed to adopt new articles of association (the "New Articles") with effect from 1 October 2008. The New Articles update the Company's current articles of association (the "Current Articles") primarily to take account of changes in English company law brought about by certain provisions of the Companies Act 2006 (the "Act") that will be in force by or on 1 October 2008.

The principal changes introduced in the New Articles are set out below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Act have not been noted.

1. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Act are in the main amended to bring them into line with the Act. Certain examples of such provisions, including provisions as to the convening and notice of general meetings and proxies, are detailed below.

2. Form of resolution

The Current Articles contain a provision that where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective. This provision and certain other provisions that refer to extraordinary resolutions are being amended as the concept of extraordinary resolutions has been abolished by the Act.

3. Convening and notice of general meetings

It is proposed that the provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings be amended to conform to the new provisions in the Act. In particular, a general meeting (other than an annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. The New Articles do not require notice to be given of a poll whether taken at or after the meeting at which it is demanded.

Notice of Meeting

4. Practical arrangements for general meetings

The New Articles contain provisions allowing the Board to make any security arrangements it considers appropriate for general meetings. The New Articles also provide the flexibility for general meetings to be held in more than one place.

5. Quorum requirements

The Act provides that in general terms the quorum for a general meeting should be calculated by reference to the numbers of "qualifying persons" who are present at the meeting, which includes an individual who is a member of the Company, a person authorised under section 323 of the Act to act as the representative of a corporation, and a person appointed as proxy of a member. As before, it is proposed that the quorum for a general meeting will be two but, in line with the Act, the New Articles make clear that there will be no double counting for qualifying persons who are representatives of the same corporation or proxies of the same member.

6. Proxies

A proxy has a statutory right under the Act to speak at any general meeting. Under the Act, proxies are also entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect these new rules, as appropriate.

7. Number of directors

In line with institutional guidelines, the New Articles include a limit on the maximum number of directors. This has been set at 15 directors.

8. Directors' fees

The New Articles provide for directors' fees up to an aggregate limit of £750,000 per annum whereas the Current Articles provide for an aggregate limit of £500,000 per annum (in each case subject to an ordinary resolution of the Company determining a larger sum). The increase in the maximum aggregate amount is intended to provide sufficient flexibility in setting the level of directors' fees in the future.

9. Election of directors by the Company

The opportunity is being taken to propose an update to the provisions on the election of directors so that a member proposing the appointment or re-appointment of a director at a general meeting must give notice of the proposed appointment not less than 14 nor more than 42 days before the date of the relevant meeting. The notice period in the Current Articles is not less than seven nor more than 35 days before the relevant meeting.

10. Retirement of directors

The opportunity is being taken to propose an update to the provisions on retirement of directors so that there is no automatic requirement for the retirement by rotation of one third of the Company's directors at each annual general meeting. The New Articles provide, in accordance with the Combined Code on Corporate Governance, that at each annual general meeting a director shall retire from office if he has been appointed by the Board since the previous annual general meeting or it is the third annual general meeting following the annual general meeting at which he was elected or last re-elected.

11. Vacation of office of director

The New Articles include updated wording which tightens up the circumstances in which a director must vacate office where the director has become physically or mentally ill. The changes apply a test of whether in the opinion of a medical practitioner the director is rendered incapable by his illness of acting as a director for more than three months or is personally prevented from exercising any powers or rights by a court order.

12. Expenses

This New Articles include updated wording in line with the Combined Code on Corporate Governance to the effect that, subject to procedures and guidelines established by the Board, a director may be paid out of the funds of the Company all expenses incurred by him in obtaining professional advice in connection with the affairs of the Company or the discharge of his duties as a director.

Notice of Meeting

13. Provision for employees on cessation of business

The Act provides that the powers of the directors to make provision for a person employed or formerly employed by the Company in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company, may be exercised by the directors or by the Company in general meeting. However, if the power is to be exercised by the directors, the articles of association must include a provision to this effect. The New Articles provide that the directors may exercise this power.

14. Directors' interests

The Act sets out directors' general duties. The provisions largely codify the existing law, but with some changes. Under the Act, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Act allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. These include, first, only independent directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and second, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation or subsequently if they think this is appropriate.

It is proposed to include provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director from being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

15. Directors' interests and voting

The legislation relating to director indemnification changed in 2005 and it is possible for companies to provide indemnification of directors' defence costs by way of loan (which in certain circumstances may need to be repaid by the director). As a result, market practice is developing with regard to the provision of indemnities to directors.

The New Articles include a provision allowing a director to vote and be counted in the quorum at a board meeting in respect of any resolution concerning any indemnification (including loans) by the Company in relation to the performance of his duties on behalf of the Company or any subsidiaries. This clarifies the ability of the Board to adopt indemnities in favour of directors in accordance with the revised legislation.

16. Directors' indemnities

The Act has in some areas widened the scope of the powers of a company to indemnify directors. In particular, a company can now indemnify a director of a company that is a trustee of an occupational pension scheme against liability incurred in connection with the company's activities as trustee of that scheme. This is reflected in the New Articles. The opportunity is also being taken to clarify that, subject to the Act, the Company may grant indemnities to directors of associated companies.

17. Redeemable preference shares

The Current Articles set out terms for redeemable preference shares in the capital of the Company. These terms are not included in the New Articles because the redeemable preference shares have all been redeemed by the Company and converted into ordinary shares in accordance with the Current Articles.

A copy of the proposed New Articles is available for inspection at the Company's registered office and at the offices of Allen & Overy LLP, One Bishops Square, London, E1 6AO until the date of the Annual General Meeting and copies will be available at the Annual General Meeting.

Notice of Meeting

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, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. 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.

A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statements of the rights of members in relation to the appointment of proxies in the above paragraph and in the paragraphs headed "Electronic proxy appointment through CREST" below do not apply to a Nominated Person. The rights described in these paragraphs can only be exercised by registered members of the Company.

In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.

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 11 May 2008 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 11 May 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

All 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 14 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 they had not done so. Therefore, Next intends to disregard the poll votes which have been cast in favour of resolution 14 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.

As at 17 March 2008 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consists of 199,946,687 ordinary shares. All of the ordinary shares carry one vote each and there are no shares held in Treasury.

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 13 May 2008 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 Euroclear UK & Ireland Limited'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 RA19) 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 Euroclear UK & Ireland Limited 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, a copy of the Company's new articles of association proposed to be adopted pursuant to resolution 15 and copies of each of the Programme Agreements pursuant to resolution 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. A copy of the Company's proposed new articles of association pursuant to resolution 15 and copies of each of the Programme Agreements pursuant to resolution 14 will be available for inspection at the offices of Allen & Overy LLP, One Bishops Square, London, E1 6AO during normal working hours until the close of the Annual General 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.nextplc.co.uk

Payment of Dividend

The recommended final ordinary dividend, if approved, will be paid on 1 July 2008 to holders of ordinary shares registered on 30 May 2008. The ordinary shares will trade ex-dividend from 28 May 2008.

Annual General Meeting

The Annual General Meeting will be held at 11.00 a.m. on Tuesday 13 May 2008 at the Belmont House Hotel, De Montfort Street, Leicester, LE1 7GR. The notice of the meeting on pages 82 to 92 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 our registrars, Equiniti. **It must be received by 11.00 a.m. on 11 May 2008.** As an alternative to completing and returning this form of proxy, you may submit your proxy electronically by accessing the Registrar's website www.sharevote.co.uk. You will be asked to enter your unique Voting ID, Task ID and shareholder reference number as printed on your form of proxy. The use by members of the electronic proxy appointment service will be governed by the terms and conditions of use which appear on the website. Electronic proxies must be completed and lodged in accordance with the instructions on the website by no later than 48 hours before the Annual General Meeting.

Share price data

	2008	2007
Share price at financial year end	1375p	1946p
Market capitalisation	£2,764m	£4,418m
Share price movement during year:		
High mid-market quotation	2437p	1961p
Low mid-market quotation	1294p	1600p

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.

Registrars and transfer office

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2164

(Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.)

Shareholder enquiries

The Company's share register is maintained by Equiniti. 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 registrar, Equiniti, 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 Equiniti provides the following:

- if requested future communications produced by them will be sent in the appropriate format.
- textphone number 0871 384 2255 for shareholders with hearing difficulties.
- hearing loop facilities in their buildings for use by visiting shareholders.

Crest

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

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 to download from the Next plc website on www.nextplc.co.uk or from Equiniti, telephone 0871 384 2164.



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ANNUAL REPORT & ACCOUNTS
JANUARY 2008



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