



next

ANNUAL REPORT AND ACCOUNTS  
JANUARY 2013

**NEXT IS A UK BASED  
RETAILER OFFERING  
EXCITING, BEAUTIFULLY  
DESIGNED, EXCELLENT  
QUALITY 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; NEXT Directory, a home shopping catalogue with over 3 million active customers and websites serving around 60 countries; and NEXT International, with almost 200 mainly franchised stores around the world.

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This document contains Forward Looking Statements — please see the important information on page 103.

## HIGHLIGHTS:

- Sales up 3.1% to over £3.5bn and underlying profit growth of 9% to £622m.
- Strong net cash inflow of £324m before share buybacks.
- £241m returned to shareholders through share buybacks, contributing to underlying EPS of 297.7p, up 16.6%.
- Full year dividend up 16.7% to 105p; remains covered 2.8 times.
- The year ahead will remain challenging, but we will continue with our strategy of investing in the Brand and improving our products.



**Revenue** **+3.1%**  
Underlying continuing business

Jan 13	£3,548m
Jan 12	£3,441m
Jan 11	£3,298m
Jan 10	£3,261m
Jan 09	£3,110m

**Profit before tax** **+9.0%**  
Underlying continuing business

Jan 13	£622m
Jan 12	£570m
Jan 11	£543m
Jan 10	£499m
Jan 09	£424m

**Earnings per share** **+16.6%**  
Underlying

Jan 13	297.7p
Jan 12	255.4p
Jan 11	221.9p
Jan 10	188.5p
Jan 09	156.0p

**Dividend per share** **+16.7%**  
Total for the year

Jan 13	105p
Jan 12	90p
Jan 11	78p
Jan 10	66p
Jan 09	55p

## CHAIRMAN'S STATEMENT

The year to January 2013 was another good year for NEXT. Underlying earnings per share before exceptional gains grew by 16.6% to 297.7p and we propose to increase our full year dividend to 105p. This is the fourth consecutive year that our earnings per share and dividend have grown by over 15%, at a time when the UK economy has continued to struggle for growth.

NEXT Directory, our online and catalogue business, continued to grow and its sales increased by 9.5%. The growth differential between NEXT Directory and NEXT Retail, where sales were level, narrowed. The two businesses continue to work well together and support each other in many ways. For example, over 20% of Directory sales are delivered through our stores and over 60% of the returns come back that way. Both businesses increased their operating margins during the year and the Group's underlying profit before tax rose by 9.0% to £622m.

Cash flow was particularly strong, helped by the timing of capital expenditure and stock intake at the year end. We continued with share buybacks, buying 7.5 million shares at an average price of £32.13. During the year we returned £390m to shareholders through share buybacks and dividends.

Our share price again performed well during 2012, in both absolute and relative terms. Over the last two financial years the share price has risen by over 100%.

As ever, our success is built on the stability and effectiveness of our management across the Group. They performed well in challenging economic conditions. I would like to thank them and all the NEXT employees for their outstanding contribution during the year.

We anticipate another challenging year ahead, with little if any growth in the UK retail economy. In these circumstances we again aim to achieve growth by investing in the Brand, improving our products, controlling costs and returning cash to our shareholders.



**John Barton**  
Chairman

## DIRECTORS' REPORT AND BUSINESS REVIEW

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

### PRINCIPAL ACTIVITIES AND BUSINESS MODEL

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

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

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

### Business strategies & objectives

The primary financial objective of the Group is the delivery of sustainable long term growth in earnings per share ("EPS"), a key driver of shareholder value. Underlying EPS increased by 16.6% from last year, and over the last ten years both EPS and share price have increased by more than 300%. This long term value has been created through the consistent pursuit of the following strategies:

- Improving and developing NEXT product ranges, success in which is measured by sales performance.
- Profitably increasing retail selling space. New store appraisals must meet demanding financial criteria before the investment is made, and success is measured by achieved sales and profit contribution against appraised targets. The store portfolio is actively managed, with openings and closures based on store profitability and cash payback.
- Increasing the number of NEXT Directory customers and their spend, both in the UK and through international online sales.
- Managing gross and net margins through efficient product sourcing, stock management and cost control.
- Maintaining the Group's financial strength through an efficient balance sheet and secure financing structure.
- Generating cash to increase dividends and purchase NEXT shares, when it is earnings enhancing and in the interests of shareholders generally.

## DIRECTORS' REPORT AND BUSINESS REVIEW

### CHIEF EXECUTIVE'S REVIEW

#### OVERVIEW

NEXT has had a good year, achieving **3.1%** growth in sales and **9.0%** growth in underlying profit before tax. Strong cash generation allowed us to buy back 4.5% of shares outstanding which, along with a lower tax rate, resulted in EPS growing much faster than profits.

In the year to January 2013 post-tax EPS grew by **16.6%**. Our full year dividend has been increased in line with EPS to 105p.

<b>REVENUE excluding VAT</b>	<b>January 2013</b>	<b>January 2012</b>	
Underlying business excluding exceptionals	£m	£m	
NEXT Retail	<b>2,190.9</b>	2,191.4	0.0%
NEXT Directory	<b>1,192.6</b>	1,088.7	+9.5%
NEXT BRAND	<b>3,383.5</b>	3,280.1	+3.2%
Other	<b>164.3</b>	161.0	+2.0%
Continuing business	<b>3,547.8</b>	3,441.1	+3.1%

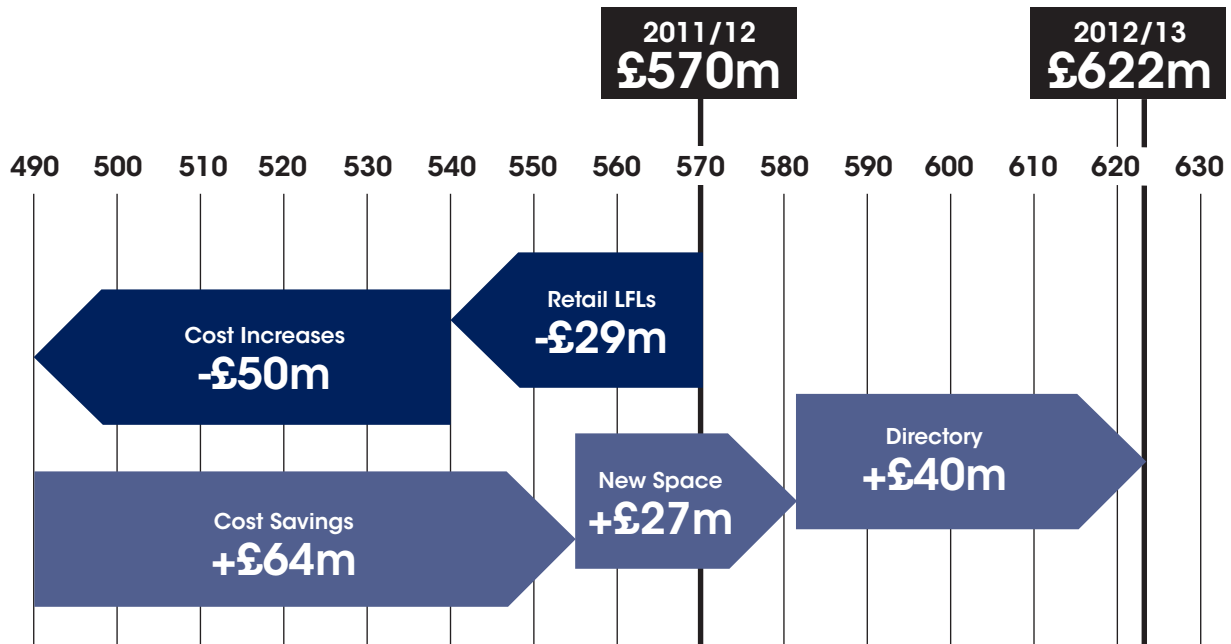
<b>PROFIT and EPS</b>	<b>January 2013</b>	<b>January 2012</b>	
Underlying business excluding exceptionals	£m	£m	
NEXT Retail	<b>331.1</b>	323.7	+2.3%
NEXT Directory	<b>302.1</b>	262.6	+15.1%
Other	<b>17.0</b>	12.4	
Operating profit – underlying	<b>650.2</b>	598.7	+8.6%
Net interest	<b>(28.6)</b>	(28.4)	
Profit before tax – underlying	<b>621.6</b>	570.3	+9.0%
Taxation	<b>(148.5)</b>	(142.9)	
Profit after tax – underlying	<b>473.1</b>	427.4	+10.7%
EPS – underlying	<b>297.7p</b>	255.4p	+16.6%
Dividends per share	<b>105.0p</b>	90.0p	+16.7%

### NEXT PLC ECONOMICS

#### Five straightforward profit drivers

The table below sets out the five main drivers of the Group's Profit and Loss account. It shows how the profit from (1) new Retail space and (2) Online sales, more than offset the profit lost as a result of (3) declining sales in the existing store base. It also shows how (4) cost inflation has been more than offset by (5) cost savings.

Profit Year Ending Jan 2012	<b>£570m</b>	
Profit from sales increases/decreases		
(1) Profit from new space	+27m	
(2) Profit from additional online sales growth	+40m	
(3) Cost of lost sales in existing stores	- 29m	
	<b>+38m</b>	+7%
Cost increases and savings :		
(4) Inflation in cost base	- 50m	
(5) Cost savings	+64m	
	<b>+14m</b>	+2%
Profit Year Ending Jan 2013	<b>£622m</b>	+9%



**Five straightforward objectives**

The Company has five core operational objectives, as set out below. Underlying these operational goals is the ever present and overriding financial objective of delivering long term, sustainable growth in earnings per share.

<b>Develop the NEXT Brand</b>	Develop, improve and expand our product ranges, focusing on being better by design.
<b>Rigorously control costs</b>	Control costs through constantly developing more efficient ways of operating. This must be done without detracting from the quality of our products and services.
<b>Invest in profitable new space</b>	Open profitable new retail space, maintaining the Company's strict payback and profitability hurdles of 15% net store profit (before central overheads) and payback on net capital invested in 24 months.
<b>Invest in online growth</b>	Invest in growth from our online business, through improving UK services and new overseas markets.
<b>Generate and return cash</b>	Focus on cash generation. Return funds that are not needed to develop the business to shareholders through share buybacks. This must be earnings enhancing and in the interests of shareholders generally.

**PRODUCT AND THE NEXT BRAND**

Without great product, all our other activities are in vain. We believe there is the opportunity to further improve and expand our product ranges, particularly at the more aspirational end of our collections.

NEXT has always maintained that, if we are to succeed, our products must be better by design. Additional time and money has been invested in the design process for Autumn Winter 2013. We hope to see continuing improvements in the fashion content and quality of our ranges as the year progresses.

## DIRECTORS' REPORT AND BUSINESS REVIEW

### COST INFLATION AND COST CONTROL

We are very clear that we must not compromise service or quality to save money, nor should we stop taking on new costs that improve our service offer. So we must control costs through operational innovation and improved purchasing. The tables below outline the main contributors to cost increases and cost savings over the last year.

<b>Cost Increases</b>	<b>£m</b>
Cost of living awards and other wage related inflation	17
Costs of Directory delivery service improvements	15
Rent, rates & other occupancy inflation	7
Retail in-store design, online overseas and additional brochure	6
Systems investments and other	5
<b>Total</b>	<b>50</b>

<b>Cost Savings</b>	<b>£m</b>
Gross margin improvements	22
Retail manpower efficiencies and other cost savings	19
Directory operating efficiencies	10
Lower freight costs	3
Non-stock purchasing improvements (e.g. paper)	3
Other	7
<b>Total</b>	<b>64</b>

Looking at the year ahead we expect cost inflation to be less challenging at around £35m. Once again, we believe that we can offset all these increased costs through saving initiatives.

### RETAIL

Retail sales were level with last year. New space added 3.2% to Retail sales and 2.1% to total Brand sales. Retail profit of £331m was 2.3% higher than last year, representing a 0.3% improvement in the Retail net margin.

### RETAIL SPACE

#### *Retail Expansion in 2012/13*

During the year we added 250,000 square feet to our store portfolio. This was less than the 300,000 we had budgeted at the start of the year. The shortfall was because it has taken longer than expected to get planning permission for new projects and because a fire delayed one of our new large sites.

The table below sets out the change in store numbers and space since January 2012.

	<b>Store Numbers</b>	<b>Sq. ft. (000's)</b>
<b>January 2012</b>	<b>536</b>	<b>6,475</b>
New stores, re-sites (6) and extensions (9)	+5	+196
Closures	- 6	- 28
Home stand-alones	+5	+85
<b>January 2013</b>	<b>540</b>	<b>6,728</b>



*Healthy Returns on Capital and High Profitability*

New store profitability and payback on net capital invested are both comfortably within Company targets. Forecasts for stores opened in the last 12 months, shown in the table below, are based on sales since their dates of opening.

	Sales vs target	Forecast profitability	Forecast payback
Mainline	+9%	24%	17 months
Home	+5%	19%	22 months
<b>Total</b>	<b>+8%</b>	<b>23%</b>	<b>19 months</b>

*Space Expansion in the Year Ahead*

There continue to be good opportunities to profitably increase UK retail selling space. Our expansion programme is built bottom-up, on a location by location basis, and there remain many towns and cities where we believe there is the potential to offer wider ranges in larger stores.

Planning remains a problem, though often more of a delay than a brick wall. We are actively working with planning officers, councillors and local communities to deliver new shops, investment and jobs. We continue to make a greater investment in the external architecture of our new stores, particularly on Retail Parks. Our aim is to transform the quality of construction associated with out-of-town retail and create the sort of buildings that communities will see as an asset, not an eyesore.

In our dealing with local councils it is noticeable that some are much more pro-growth and pro-jobs than others. Many local councils are enthusiastic and efficient; but a few remain an unhealthy mix of Luddite intransigence and incompetence. Going forward, in areas where councils traditionally have got away with just saying "no", we will be more active in harnessing the law and the full weight of public opinion to campaign for growth.

Next year we expect to add at least 250,000 sq. ft. of trading space (net of closures).

*Store Portfolio Profitability*

We continue to closely monitor the profitability of our store portfolio. Underperforming stores are actively managed with a view to possible closure before they become uneconomic. On average our store leases have 7 years to run before expiry or a break clause.

Our portfolio remains extremely profitable, with 89% of our sales coming from stores delivering more than 15% profit contribution on sales.

Store profitability	Percentage of turnover
>20%	71%
>15%	89%
>10%	95%
>5%	99%
>0%	99.4%

Over the last five years the steady process of opening new space and refitting existing stores has transformed our portfolio. Of the 6.7 million square feet of trading space we have today, 3.7 million (54%) is in stores that are either brand new or enlarged. Of the remaining 3 million square feet, 2.2 million has been refitted, leaving just 800,000 (13%) square feet of the portfolio unchanged from 2007.

## DIRECTORS' REPORT AND BUSINESS REVIEW

### RETAIL PROFIT ANALYSIS

Operating margin improved slightly on last year. The table below details the margin movement by the major heads of costs.

<b>Net operating margin last year</b>		<b>14.8%</b>
<b>Increase in bought-in gross margin</b>	The improvement in bought-in gross margin was driven by an improved USD exchange rate. This improvement was partly offset by selling a higher proportion of Home and Childrenswear; these product categories have a lower gross margin than the average.	+0.3%
<b>Reduction in freight and faulty</b>	The cost of freight fell and in addition we used less unplanned air freight. Faulty stock rates also reduced.	+0.3%
<b>Increase in store payroll</b>	The annual cost-of-living pay award and staff bonus would have pushed wage costs up by 0.5%, however this cost was almost completely offset by in-store efficiency initiatives.	-0.1%
<b>Increase in store occupancy</b>	Rents and rates increased as a percentage of sales mainly as a result of negative like for like sales. Rental inflation was minimal and continued to decline. Business rates inflation, which is linked to September RPI, was very high at 5.6%.  Electricity costs also increased significantly in the first half.	-0.4%
<b>Warehouse and distribution</b>	The annual cost-of-living pay award was offset by cost saving initiatives.	+0.0%
<b>Central overheads</b>	Central overheads reduced as a percentage of sales.	+0.2%
<b>Net operating margin this year</b>		<b>15.1%</b>

### DIRECTORY

NEXT Directory sales were up 9.5% and profit increased by 15.1%.

### UK SERVICE

NEXT Directory continues to provide good opportunities for growth. In the UK, growth is driven by the wider online market and by improving delivery services. Last year we added Same-Day, Evening, Sunday and Next-Day to Store delivery services, all at a £2.99 premium to the standard service.

In 2013 we have already improved our delivery services further:

- The cut off for standard next day delivery to home has been moved back to 10pm.
- Next-Day delivery to stores has been improved to allow collection after 12.30pm (as opposed to 4.00pm) and the price of this service has been reduced from £2.99 to 50p.

### INTERNATIONAL ONLINE

International sales grew from £33m to £54m. We now sell direct to 60 international territories, and also through 6 partners in 14 of those countries. Our international online business contributed £10m to profit. In the year ahead we expect our overseas online business to grow to at least £70m, adding a further £4m to profit.

**SALES ANALYSIS**

The increase in sales came from four main sources which are set out in the table below.

	Contribution to growth
UK full price sales	5.2%
Clearance Tab	2.2%
Markdown sales	0.1%
International online	2.0%
<b>Total sales growth</b>	<b>9.5%</b>

**CUSTOMER ANALYSIS**

Directory active average customers increased year on year by 10.3% to 3.3 million. Customer growth is set out below, broken down into credit and cash customers.

	January 2013	January 2012	Change	Increase in customer base
<b>Average customers '000s</b>				
Total credit customers	2,663	2,557	+106	+3.5%
Total cash customers	641	438	+203	+6.8%
<b>Total active customers</b>	<b>3,304</b>	<b>2,995</b>	<b>+309</b>	<b>+10.3%</b>

**DIRECTORY PROFIT ANALYSIS**

Operating margin increased by 1.2% to 25.3%. The table below details the margin movement by the major heads of costs.

<b>Net operating margin last year</b>		<b>24.1%</b>
<b>Increase in bought-in gross margin</b>	The improvement in bought-in gross margin was driven by an improved USD exchange rate. In addition Directory sold a higher proportion of Womens and Menswear, these product categories have a higher gross margin than the average.	+ 1.0%
<b>Reduction in freight</b>	The cost of freight fell and in addition we used less unplanned air freight.	+ 0.2%
<b>Higher markdown &amp; obsolescence</b>	Directory took more drop stock from Retail for its Clearance Tab. The additional obsolescence charge on this stock was the main cause for this adverse movement in margin.	- 0.4%
<b>Decrease in bad debt &amp; increased service charge</b>	The continued improvement in bad debt rates increased margin by +0.3%. Service charge growth increased margin by a further +0.2%.	+ 0.5%
<b>Decrease in marketing</b>	The improvement is mainly due to non-recurring costs incurred last year for the development of our new website software.	+ 0.3%
<b>Decrease in call centre</b>	Call centre costs increased margin through improved processes, including automatic credit scheduling, (+0.2%) and a reduction in call volumes & length (+0.1%).	+ 0.3%
<b>Decrease in catalogue production</b>	Photography costs reduced, improving margin by +0.3%. More customers elected to trade without a catalogue; this reduced print costs as a percentage of sales.	+ 0.5%
<b>Increase in warehouse and distribution</b>	International distribution costs, to service our growing overseas business, eroded margin by -0.5%. We added new processes in our warehouses to enhance our delivery offer; this eroded margin by a further -0.8%.	- 1.3%
<b>Central overheads</b>	Overhead costs increased at a lower rate than sales.	+ 0.1%
<b>Net operating margin this year</b>		<b>25.3%</b>

## DIRECTORS' REPORT AND BUSINESS REVIEW

### INTERNATIONAL RETAIL

We have a profitable franchise business, with partners operating 170 stores in 33 countries. Our 19 directly owned stores (in 7 countries) made a small loss. We do not intend to open any new directly owned international stores going forward. Revenue and income for our international business is set out below.

£m	2013	2012	
Franchise income	61.5	58.7	
Owned store sales	16.2	17.6	
Total revenue	77.7	76.3	+1.8%
<b>Operating profit</b>	<b>8.4</b>	7.9	+6.2%

We are budgeting for International Retail to make a profit of £10m in the year ahead, the improvement coming mainly from the closure of loss making stores.

### NEXT SOURCING

NEXT Sourcing profit recovered from the previous year, when a significant provision was required against unshipped faulty stock. That issue has been resolved and £1m of excess provision has been released this year. NEXT Sourcing competes for business against the many other suppliers to NEXT Retail and NEXT Directory, it provides around 40% of NEXT Brand stock.

£m	2013	2012
Sales	507.1	519.0
<b>Operating profit</b>	<b>30.8</b>	21.1
Operating margin	6.1%	4.1%

We are forecasting NEXT Sourcing profits to be around £30m in the year ahead.

### OTHER PROFIT AND LOSS ACTIVITIES

£m	2013	2012
Lipsy	2.0	1.3
Property management	3.5	5.6
Central costs	(35.3)	(30.6)
Pension variation	3.6	6.7
Unrealised foreign exchange	3.4	(1.1)
Associates	0.6	1.5
<b>Total</b>	<b>(22.2)</b>	(16.6)

### LIPSY

The full year sales of £58m and profit of £4m, before amortisation and profit share of £2m, was the best performance under the four years of our ownership. Internet sales, through Lipsy's own site and the NEXT Directory, doubled to £17m and are now ahead of wholesale sales. Lipsy's retail sales were £22m, taken from 51 stores trading 60,000 sq. ft.

### PROPERTY MANAGEMENT

Underlying profit was down by £2m to £3.5m. We now own very few retail freeholds. At the end of the year we sold a development property occupied by Ventura (a business we divested in 2011): the £9m profit is shown as exceptional. We do not anticipate any property management profit in the year ahead.

**CENTRAL COSTS**

The charge has increased by £5m mainly due to performance-related pay and Company wide share-based incentives. We expect central costs to decrease by £1m in the year ahead.

**PENSION SCHEME**

The actuarial pension credit fell from £7m to £4m. We expect this credit to be around £3m in the coming year. During the year we made changes to our final salary pension scheme (which has been closed to new entrants since 2000). This change gave a credit adjustment which was partially offset by the cost of hedging out a tranche of pension liabilities. The net effect of these two changes was an exceptional post-tax credit of £28m.

**INTEREST AND TAXATION**

The interest charge was £28m. For the year ahead we expect net debt to range between £400m and £600m, resulting in a similar interest charge.

Our tax rate reduced as expected to 23.9%, following the reduction in headline UK corporation tax rates. On the assumption that tax rates continue to reduce as announced, we expect our effective rate to be no higher than 23% in each of the next two years.

**BALANCE SHEET**

The balance sheet remains strong with year end net debt of £493m and forecast peak borrowing requirements being very adequately financed by our bonds and bank facilities of £923m, as set out in the table below.

	<b>£m</b>
2013 bonds – repayment due September	85
2016 bonds	213
2021 bonds	325
<b>Total bonds nominal value</b>	<b>623</b>
2016 committed bank facility	300
<b>Total debt facilities available</b>	<b>923</b>

We believe NEXT will generate around £250m of cash in the year ahead after capital expenditure, interest, tax and dividends, but before share buybacks.

**CASH GENERATION, NET DEBT AND SHARE BUYBACKS****STRONGER THAN EXPECTED CASH FLOW**

Cash generation was significantly ahead of our expectations. Operational cash flow, before buybacks and before additional cover in the ESOT, was £376m. This was a long way ahead of our original £240m forecast, the variance has been driven by higher profits, lower capital expenditure and year end stock levels, higher Directory customer payments and a number of other one off factors.

During the year we used surplus cash to buy 7.5 million shares (4.5% of shares outstanding as at Jan 2012) at an average price of £32.13 and a cost of £241m. In addition we used £52m to increase the share option cover in our Employee Share Ownership Trust: this had the effect of reducing net shares in issue by a further 0.7%.

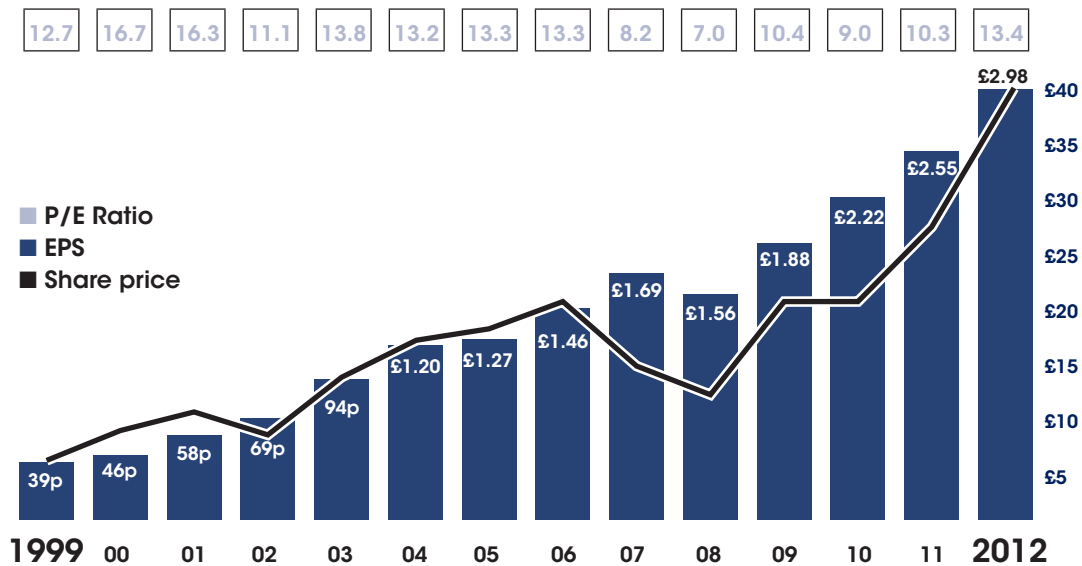
## DIRECTORS' REPORT AND BUSINESS REVIEW

### BUYBACKS, EPS AND SHARE PRICE

Despite their increasing popularity, share buybacks are still widely misunderstood. There are still those who wrongly believe that they are some sort of share support scheme. This, of course, would be futile as any attempt to support a share price would evaporate as soon as the money ran out.

The only reason share buybacks can deliver long term value is because they *permanently reduce the number of shares in issue* and so increase the amount of profit attributable to each share (EPS). An important part of the logic of share buybacks is the implied link between growth in EPS and growth in share price. Whilst, in the short term there might appear to be no link, in the long run share prices tend to reflect the fundamental value of the earnings and dividend stream. If the share price did not rise with EPS, the buyback programme would eventually leave a single share owning all the profits and dividends!

The graph below illustrates the long term correlation of share price to EPS for NEXT plc over the period we have been buying back shares. The blue boxes indicate earnings per share and the black line shows the share price. The boxes at the top of the chart show the historic price/earnings (PE) ratio.



Earnings Per Share and Share Price History

### THE LONG GAME - THE NEXT PLC RULES OF BUYBACKS

Over the long term, we have been following these rules when considering buybacks:

1. Share buybacks must be earnings enhancing and make a healthy Equivalent Rate of Return (see below).
2. Only use the cash the business does not need. NEXT has always prioritised investment in the business over share buybacks.
3. Use surplus cash flow, not ever-increasing amounts of debt. We have never allowed our share buyback programme to threaten our investment grade credit status and will not do so going forward.
4. Maintain the dividend at a reasonable level through growing dividends in line with EPS. NEXT will continue to increase dividends in line with EPS.
5. Be consistent. NEXT has been buying shares every year for more than 10 years, reducing the shares in issue by more than 50%.
6. For share buybacks to be an effective use of shareholder cash, the core business must have the prospect of long term growth.

**EFFECT ON BUYBACKS OF A RISING SHARE PRICE**

The graph above demonstrates that the relationship between our EPS and share price has recently returned to its near historical average. It is important to recognise that this relative rise in the PE ratio reduces the benefit of share buybacks. The more expensive the shares become, the smaller the share of the business can be bought with the same amount of surplus cash.

For example, two years ago when our share price was £21, our operational free cash flow of £200m enabled us to buy 5.2% of the Company. Today with the shares around £40 our expected surplus cash flow of £250m will only buy 3.9%.

The overall effect is simple: as the PE ratio rises the earnings enhancement of buybacks falls. So, given our current PE ratio, how should NEXT assess the desirability of share buybacks?

Essentially there are two measures we look at. The first is the *earnings enhancement* of a buyback when compared to the enhancement to earnings from keeping the cash in the bank and earning interest. The second is the comparison between the earnings enhancement of a buyback compared to the return that would have to be achieved from investing the cash in an alternative investment, the *equivalent rate of return (ERR)*.

With long term borrowing rates for NEXT at around 4%, a share buyback of £250m at £40 would be 2.5% earnings enhancing. The problem with this method of assessing buybacks is that at low interest rates buybacks remain earnings enhancing beyond £60, so we consider the equivalent rate of return measure to be more helpful.

**EQUIVALENT RATE OF RETURN (ERR)**

The tables below set out the maths used to calculate ERR. The top table shows the enhancement achieved from acquiring £250m of shares at £40, which is 4%. The second table shows that if we were to increase our profits by 4% we would have to invest in an asset yielding 10%. Given that share buybacks carry no additional operational risk, the returns at 10% remain very attractive.

**Enhancement £250m Buyback** (pre interest costs)

Share price	£40.00
Market capitalisation	£6,400m
Cash used for buyback	£250m
% Acquired (250/6400)	3.9%
EPS Enhancement $1/(1-3.9\%)$	4.1%

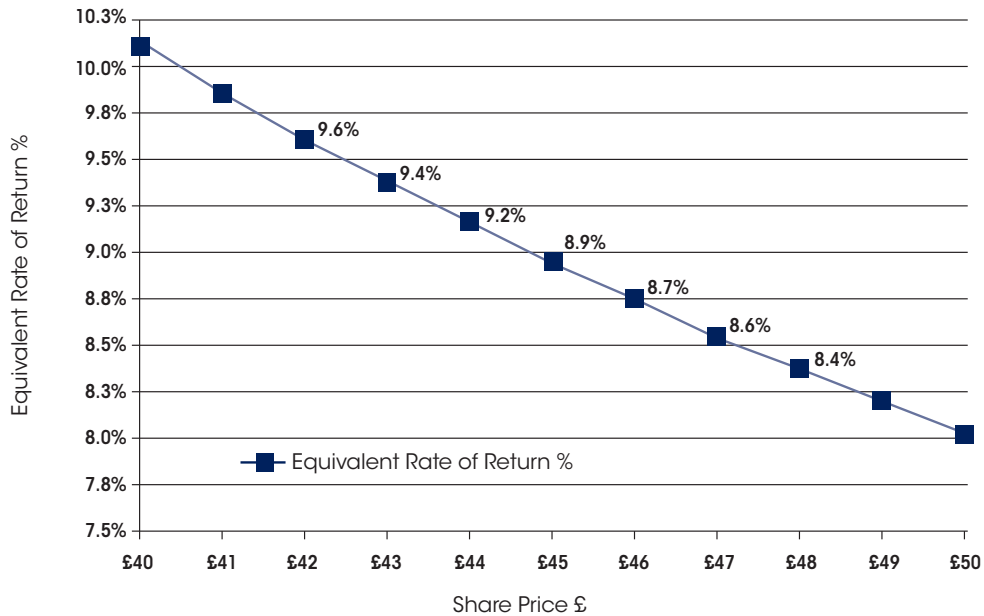
**Calculating ERR**

Company profits	£622m
Additional profit required for 4% growth in EPS	£25.3m
Additional profit as a percentage of £250m invested in buyback (ERR)	10.1%

(These workings are shown as an explanation of Equivalent Rate of Return. Of course, a simpler way of calculating ERR is to divide profit before tax into market capitalisation!)

## DIRECTORS' REPORT AND BUSINESS REVIEW

The graph below shows how ERR falls as the share price rises. As the yield approaches the Market's expected return on equity (say 8%), the buyback becomes less attractive. If the returns dropped much below 9% we would become less enthusiastic, so to a certain extent the share price provides a natural moderator of a disciplined buyback programme.



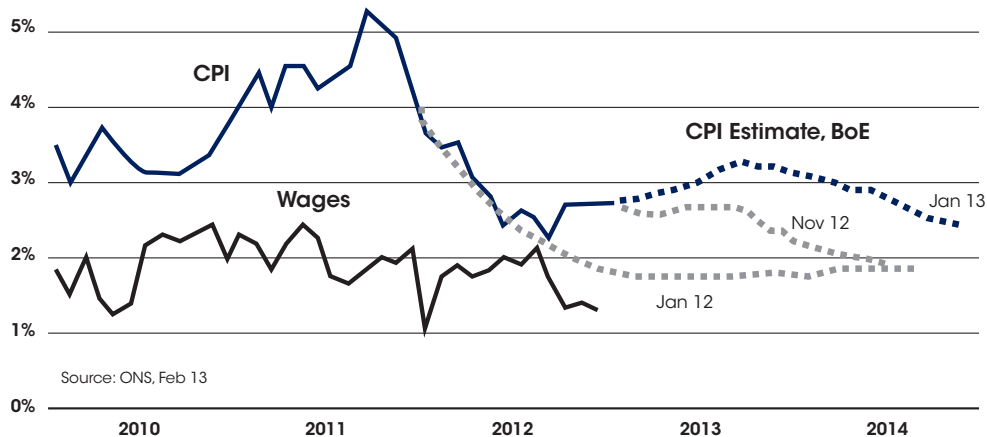
### OUTLOOK FOR 2013

#### THE CONSUMER ECONOMY

The consumer environment looks set to remain subdued. The inevitable deleveraging of public and private finances means that the nation must slowly work its way back to affording the lifestyle it was already enjoying before the financial crisis.

This process of retrenchment is manifesting itself in earnings growth running below the rate of inflation. This decline in real earnings looks set to continue for at least one, if not several more years to come. Indeed the outlook for 2013 inflation has worsened since this time last year.

The graph below shows the difference in CPI and wages. The black dotted line is the Bank of England central inflation forecast as at January 2013, the grey dotted lines are the equivalent estimates in January and November 2012. Estimates for inflation steadily rose last year, leaving the outlook for real earnings as difficult as 2012, if not slightly worse. So we are planning on there being very little if any improvement in the underlying consumer economy.





**OUTLOOK FOR NEXT BRAND SALES 2013**

In this environment we will continue to budget for our existing stores to take moderately less than the previous year.

Any growth in sales must come from investment in profitable new space and the continuing growth in the online market, both in the UK and overseas. In the year ahead we expect these avenues of growth to continue to exceed underlying declines.

We are budgeting for total NEXT Brand sales for the full year to rise within a range of +1% to +4%.

The first few weeks of the year have been quiet and serve to reinforce a more cautious approach. At present, sales are at the bottom of our target range, though we expect this situation to improve. We will get a better understanding of the underlying consumer environment once temperatures return to seasonal levels. We will issue further guidance with our May trading statement.

**OUTLOOK FOR GROUP PROFITS AND EPS**

Assuming sales fall within our budgeted range, we expect Group profits before tax, for the full year, to be in a range of £615m to £665m, which would represent a year on year movement of between -1% to +7%. Assuming we achieve our buyback plan, EPS would rise by between +4% and +13%. The table below sets out our guidance for the full year:

	Lower end of guidance	Upper end of guidance
Total Brand sales % growth (E)	+1%	+4%
Profit before tax (E)	£615m	£665m
Profit before tax % growth (E)	-1%	+7%
EPS % growth (E)	+4%	+13%

**OUTLOOK FOR RETAIL SELLING PRICE INFLATION 2013 AND BEYOND**

Overall factory gate prices are stable. Any increases in Far Eastern wages have generally been offset by manufacturing productivity improvements or the development of new Far Eastern sources of supply, in particular Bangladesh and Cambodia.

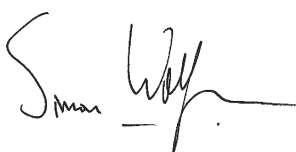
The recent sharp fall in the value of sterling will have very little impact on this year's pricing as we have bought forward most of our foreign currency requirement for the current year. If the pound remains at its current rate of exchange against the dollar, we would expect our prices to rise in 2014.

**INTERIM MANAGEMENT STATEMENT**

Our next statement will cover the first fourteen weeks of the year, to 4 May 2013, and is provisionally scheduled for Wednesday 8 May 2013.

**IN SUMMARY**

NEXT has performed well in a difficult year, delivering good growth in sales and profits along with exceptional advances in earnings per share and dividends. The year ahead looks no less challenging but the Group is well prepared and has further opportunities for growth. We remain strongly cash generative and have every chance of delivering another year of increased sales and earnings per share.



**Lord Wolfson of Aspley Guise**

Chief Executive

21 March 2013

## DIRECTORS' REPORT AND BUSINESS REVIEW

### KEY PERFORMANCE INDICATORS

KPI's of earnings per share, group cash flows and divisional revenues and profits 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:

<b>NEXT Retail selling space</b>	<b>2013</b>	<b>2012</b>	<b>Annual change</b>
Store numbers	<b>540</b>	536	+0.7%
Square feet 000's	<b>6,728</b>	6,475	+3.9%

*Selling space is defined as the trading floor area of a store which excludes stockroom and administration areas.*

<b>NEXT Retail stores and sales</b>	<b>2013</b>		<b>2012</b>	
	<b>No. stores</b>	<b>LFL %</b>	<b>No. stores</b>	<b>LFL %</b>
Total like for like	<b>530</b>	<b>-3.8%</b>	512	-6.3%
Underlying	<b>473</b>	<b>-3.2%</b>	432	-5.7%

*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 with the same period in the previous year to calculate like for like sales figures. Underlying like for like sales applies the same calculation but excludes stores impacted by new store openings.*

<b>NEXT Retail operating margin</b>	<b>2013</b>	<b>2012</b>
Net operating margin last year	<b>14.8%</b>	14.8%
Increase in achieved gross margin	<b>+0.6%</b>	+0.7%
Increase/decrease in store payroll	<b>-0.1%</b>	+0.3%
Increase in store occupancy	<b>-0.4%</b>	-0.4%
Decrease/increase in other costs	<b>+0.2%</b>	-0.6%
<b>Net operating margin this year</b>	<b>15.1%</b>	14.8%

*Gross margin is the difference between the cost of stock and the initial selling price; achieved gross margin is after markdown and stock related costs. Net operating margin is profit after deducting markdowns and all direct and indirect trading costs. All are expressed as a percentage of achieved VAT exclusive sales.*

<b>NEXT Directory customers and pages</b>	<b>2013</b>	<b>2012</b>	<b>Annual change</b>
Average active customers	<b>3,304,000</b>	2,995,000	+10.3%
Average sales per customer	<b>£361</b>	£363	-0.6%
Number of printed pages	<b>4,204</b>	4,180	+0.6%

*Active customers are defined as cash and credit customers who have placed an order or made a payment in the last 20 weeks, calculated as a weighted average of each week's figure. Average sales per customer are calculated as VAT exclusive sales, including service charge, divided by the average number of active customers.*

<b>NEXT Directory operating margin</b>	<b>2013</b>	<b>2012</b>
Net operating margin last year	<b>24.1%</b>	23.7%
Increase in achieved gross margin	<b>+0.8%</b>	+0.8%
Decrease in bad debt	<b>+0.3%</b>	+0.4%
Increase/decrease in service charge income	<b>+0.2%</b>	-0.9%
Increase/decrease in other costs	<b>-0.1%</b>	+0.1%
<b>Net operating margin this year</b>	<b>25.3%</b>	24.1%

<b>Share buybacks</b>	<b>2013</b>	<b>2012</b>
Number of shares purchased ('000)	<b>7,510</b>	12,482
% of opening share capital	<b>4.5%</b>	6.9%
Total cost	<b>£241.3m</b>	£289.7m
Average cost per share	<b>£32.13</b>	£23.21

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

## 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 NEXT's stakeholders. The Board reviews business strategy on a regular basis to determine how sales and profit budgets can be achieved or bettered and business operations made more efficient. This process involves the setting of annual budgets and longer term financial objectives to identify ways in which to increase shareholder value. Critical to these processes are the consideration of wider economic and industry specific trends that affect the Group's businesses, the competitive position of its product offer and the financial structure of the Group.

### ■ Liquidity & credit risk

The Group has adequate medium and long term financing in place to support its business operations. The Board continues to assess its exposure to counterparty risk in the light of the prevailing economic climate both in the UK and globally and its treasury policy is amended as necessary to manage counterparties with which deposits, investments and other transactions may be made.

NEXT is exposed to credit risk in respect of its Directory and other business customers. Rigorous procedures are in place with regard to the Group's credit customers and these are regularly reviewed and updated as required. Key suppliers whose services are essential to the successful running of the business also face credit risk. These include the production of the Directory, provision of IT systems and certain systems and suppliers to the Group's warehouse and distribution network. The Group's risk assessment procedures for key suppliers identify alternatives and develop contingency plans in the event any of these suppliers fail.

### ■ Management team

The success of NEXT relies on the continued service of its senior 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. The Remuneration Committee identifies senior personnel, reviews remuneration at least annually and formulates packages to retain and motivate these employees. In addition, the Board considers the development of senior managers to ensure adequate career development opportunities for key personnel, with orderly succession and promotion to important management positions.

### ■ 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 can decline in periods of negative consumer confidence. As a consequence, NEXT may be faced with surplus stocks that cannot be sold at full price and have to be disposed of at a loss. Executive directors and senior management continually review the design and selection of NEXT's product ranges. This ensures, so far as possible, that there is a well-balanced product mix that is good value for money, and available in sufficient quantities and at the right time to meet customer demand.

### ■ Key suppliers & supply chain management

NEXT relies on its supplier base to deliver products on time and to the quality standards it specifies. It continually seeks ways to develop its supplier base so as to reduce over-reliance on individual suppliers of product and services, and to improve the competitiveness of its product offer. If input costs rise, for example raw materials or labour costs, NEXT will work with existing suppliers to mitigate the inflationary impact. New sources of supply will be developed in conjunction with NEXT Sourcing, external agents and direct suppliers.

Non-compliance by suppliers with the NEXT Code of Practice may increase reputational risk. NEXT carries out regular inspections of its suppliers' operations to ensure compliance with the standards set out in this code, covering production methods, employee working conditions, quality control and inspection processes. NEXT also monitors and reviews the financial, political and geographical aspects of its supplier base to identify any factors that may affect the continuity or quality of supply of its products.

## DIRECTORS' REPORT AND BUSINESS REVIEW

### RISKS & UNCERTAINTIES (CONTINUED)

#### ■ Retail store network

Growth of NEXT Retail is dependent upon developing the trading 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. New store appraisals estimate the effects of sales deflection from existing stores, although the performance of new stores and sales deflection may differ from estimates.

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 lease terms. Notwithstanding there have been a number of retail failures in recent years, prime sites will generally remain in demand, and increased competition can result in higher future rents.

#### ■ Directory customer base

Growth of the NEXT Directory depends upon the recruitment and retention of customers and increasing the average spend per customer. NEXT will continue to recruit new credit 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.

In addition, NEXT requires its internet website to attract new customers and encourage existing customers to continue ordering from the Directory. Management continually review the configuration, content and functionality of the website to ensure it provides a positive customer shopping experience. Service levels and response times are monitored to ensure that the website is both resilient and secure at all times.

#### ■ Warehousing & distribution

NEXT regularly reviews the warehousing and distribution operations that support the business. Risks include business interruption due to physical damage, access restrictions, breakdowns, capacity shortages, inefficient processes and delivery service failures. Planning processes are in place to ensure there is sufficient warehouse handling capacity for expected future business volumes over the short and longer terms. In addition, service levels, warehouse handling and delivery costs are monitored continuously to ensure goods are delivered to Retail stores, Directory customers and third party clients in a timely and cost-efficient manner.

#### ■ IT systems & business continuity

NEXT is dependent upon the continued availability and integrity of its IT systems, which 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 enhancement and investment to prevent obsolescence and maintain responsiveness. Back up facilities and business continuity plans are in place and are tested regularly to ensure that business interruptions are minimised and data is protected from corruption or unauthorised access or use.

#### ■ Call centre capacity & service levels

NEXT is dependent on the efficient operation of its own and third party call centres to receive and respond to customer orders and enquiries. Insufficient manpower, supplier failures and interruption in the availability of telephony systems to meet customer service requirements are the principal risks. The Group continuously monitors call centre operations that support the business to ensure that there is sufficient capacity to handle call volumes. Capacity forecasting is used to manage peak demands and growth in business volumes, and customer satisfaction is measured on a regular basis. Business continuity plans minimise the risk of business interruption.

#### ■ Treasury & financial risk management

The main financial risks are the availability of funds to meet business needs, default by counterparties to financial transactions (see Liquidity & credit risk), and fluctuations in interest and foreign exchange rates. In addition, business expansion and share buybacks may necessitate the raising of additional finance, which can in turn increase interest costs and give rise to fluctuations in profit. Higher debt could also increase the proportion of cash flow required to service debt and potentially increase 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 27 to 30 of the financial statements.

In addition, NEXT has to fund its defined benefit pension scheme and ensure that sufficient contributions are made to meet outstanding liabilities as they fall due. If NEXT fails to provide sufficient and timely funding, action may be taken by the pension scheme trustees, or the Pensions Regulator, which could result in an acceleration and/or an increase in overall contributions towards any deficit. Management meets regularly with the trustees to assess fund performance, as well as to agree future contribution levels and any necessary changes to members' future benefits.

## EMPLOYEES

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

### 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 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 elected representatives from throughout the business who attend meetings at least twice a year with directors and senior managers. This forum enables and encourages open discussion on key business issues, policies and the working environment.

### Employee share ownership

Approximately 8,200 employees held options over 8.6 million shares in NEXT at January 2013, being 5.3% of the total shares in issue. Its employee share ownership trust ("ESOT") purchases shares for issue to employees when their options are exercised. At the year end the ESOT held 6.5 million shares, the voting rights of which are exercisable by the Trustee.

### Pension provision

The NEXT Group Pension Plan provides valuable pension benefits to participating employees, details of which are set out in the Remuneration Report on pages 46 to 47 and in Note 21 to the financial statements. At January 2013, there were 1,242 (2012: 1,337) active members in the Defined Benefit Section and 2,375 (2012: 1,935) members in the Defined Contribution Section. The Group has also made arrangements for auto-enrolment and contributions commenced in February 2013.

## SOCIAL & ENVIRONMENTAL MATTERS

NEXT is committed to the principles of responsible business. This means addressing key business related social, ethical and environmental matters in a way that aims to bring value to all of its stakeholders, including customers and shareholders. Continuous improvement lies at the heart of NEXT's approach and is achieved by acting in an ethical manner, developing positive relationships with suppliers, recruiting and retaining successful and responsible employees, taking responsibility for our impact on the environment and through contributions to charities and community organisations.

## DIRECTORS' REPORT AND BUSINESS REVIEW

### SOCIAL & ENVIRONMENTAL MATTERS (CONTINUED)

NEXT has a Corporate Responsibility ("CR") forum of 15 senior managers and directors representing key areas of the business to develop and implement strategy. The forum identifies potential issues and opportunities and evaluates the success of NEXT's response. The CR Manager holds regular updates with the executive director responsible for CR.

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

#### Suppliers

NEXT is a member of the Ethical Trading Initiative and operates its Code of Practice ("COP"), an established set of ethical trading standards, as an integral part of its operations. The NEXT COP has ten key principles that 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. 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 supplier audit and management programme and has a COP audit team of 44 staff (2012: 45). The COP team works directly with suppliers to identify and address causes of non-compliance. Each audited factory is measured against the COP's six tier rating system. The supplier is made aware of its rating and what is required to improve via a corrective action plan. This direct approach allows NEXT to build knowledge and understanding in local communities and monitor suppliers through its auditing process.

NEXT's supplier payment policy is 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 January 2013 were 27 days (2012: 27 days) based on the ratio of the trade creditors at the end of the year to the amounts paid during the year to trade creditors. The Company had no trade creditors at January 2013 or January 2012.

#### Customers

NEXT is committed to offering stylish, excellent quality products to its customers, which are well made, functional, safe and are sourced in a responsible manner. Its team of technologists works closely with buyers, designers and suppliers to ensure NEXT products comply with all relevant legislation, and its own internal standards where these are higher. The expertise of independent safety specialists for clothing, footwear, accessories, beauty and home products is used where required.

NEXT endeavours to provide a high quality service to all customers, whether they are shopping through its stores, catalogues or website. These different ways of shopping must be easily accessible for all customers and be responsive to their needs.

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

#### Health and safety

NEXT recognises the importance of health and safety and its management is designed to contribute to business performance. Policies and procedures are reviewed and audited regularly to make safety management more robust and current.

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 the public, customers, employees or contractors. Procedures exist to enable two way communication and consultation about health, safety and welfare issues in order to achieve a high level of safety awareness.

## Environment

NEXT recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future. For a number of years we have measured and reported against environmental targets for NEXT in the UK and Eire. The targets are measured from 2007 and look forward to 2015.

Key areas of focus are:

- *Energy use and emissions from stores, warehouses, distribution centres and offices*  
**Target:** Electricity consumption – 35% reduction in kg CO<sub>2</sub>e/m<sup>2</sup>  
**Progress:** 4% reduction compared with last year, and 30% electricity reduction achieved to date
- *Fuel emissions from the transportation of products*  
**Target:** Retail Distribution – 10% reduction in litres of fuel used/m<sup>2</sup>  
**Progress:** 8% reduction compared with last year, and 16% reduction achieved to date
- *Waste created in stores, warehouses, distribution centres and offices*  
**Target:** To send less than 5% of operational waste to landfill  
**Progress:** 86% of operational waste diverted from landfill achieved to date, in line with last year

NEXT is committed to reducing its carbon footprint by reducing energy consumption throughout its operations, minimising and recycling waste, cutting transport emissions and reducing the packaging in our products.

## Community

NEXT supports a wide range of charities and organisations, and provided the following financial support during the year:

	2013 £000	2012 £000
Registered charities	911	876
Individual requests, local and national groups and organisations	110	75
Commercial support	83	73

This support was supplemented by the following additional activities:

	2013 £000	2012 £000
NEXT charity events	182	–
Gifts in kind - product donations	2,187	1,652
Charity linked sales	357	425
Employee fundraising	22	44

No donations were made for political purposes (2012: nil).

## ANNUAL GENERAL MEETING & OTHER MATTERS

Notice of the Annual General Meeting ("AGM") is on pages 96 to 101 and includes the following business:

### Dividends

The Directors recommend that a final dividend of 74p per share be paid on 1 August 2013 to shareholders on the register of members at close of business on 28 June 2013. The Trustee of the NEXT Employee Share Ownership Trust ("ESOT") has waived dividends paid in the year on the shares held by it, see Note 26.

### Directors

Caroline Goodall was appointed as a non-executive director with effect from 1 January 2013. Caroline has 30 years' experience in the legal profession, with 20 years as a corporate finance partner at Herbert Smith. Caroline's appointment ensures an appropriate balance of skills, experience and independence is maintained.

## DIRECTORS' REPORT AND BUSINESS REVIEW

The UK Corporate Governance Code provides for all directors of FTSE companies to stand for election every year, and all members of the Board will do so at this year's AGM. Their biographical details are set out on page 27.

The Board has formally reviewed the performance of all non-executive directors and concluded that they remain independent, effective and are committed to their roles at NEXT. In addition, the Board specifically considered the independence of Jonathan Dawson and Christine Cross, who were first appointed to the Board 9 years and 8 years ago respectively, and concluded that they remain independent in both character and judgement, and their knowledge and other business interests continue to enable them to contribute significantly to the work and balance of the Board.

The interests of the directors who held office at 26 January 2013 and their families are shown in the Remuneration Report on pages 48 and 50 to 52.

### Auditor

Ernst & Young LLP have expressed their willingness to continue in office and their reappointment will be proposed at the AGM.

### Disclosure of information to the auditor

In accordance with the provisions of Section 418 of the Companies Act 2006, 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 auditor is 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 auditor is aware of that information.

### Authority to allot shares

Ordinary resolution 15 will, if passed, renew the directors' authority pursuant to section 551 of the Companies Act 2006 to allot shares or grant rights to subscribe for, or convert any security into, shares until the conclusion of the AGM in 2014 or, if earlier, 1 August 2014. This resolution will allow the directors to allot ordinary shares up to a maximum nominal amount of £5,300,000, representing approximately one third (33.33%) of the Company's existing issued share capital as at 19 March 2013. In accordance with the latest institutional guidelines, resolution 15 will also allow directors to allot further ordinary shares, in connection with a pre-emptive offer by way of a rights issue, up to a total maximum nominal amount of £10,600,000, representing approximately two thirds (66.67%) of the Company's existing issued share capital as at that date. As at 19 March 2013 (being the latest practicable date prior to publication of this document) the Company's issued share capital amounted to £16,123,424, comprising 161,234,237 ordinary shares of 10 pence each, none of which are held in treasury. The directors have no present intention of exercising this authority.

### Authority to disapply pre-emption rights

Special resolution 16 will, if passed, renew the directors' authority pursuant to sections 570 to 573 of the Companies Act 2006 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 on a non pre-emptive basis to £806,000, being less than 5% of the issued ordinary share capital as at 19 March 2013. 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 AGM in 2014 or, if earlier, 1 August 2014. The directors do not intend to issue more than 7.5% of the issued share capital of the Company for cash under this or previous authorities in any rolling three year period without prior consultation with shareholders and the Investment Committees of certain shareholder representative organisations.

### On-market purchase of own shares

NEXT has been returning capital to its shareholders by share repurchases as well as dividend since March 2000 as part of its strategy for delivering sustainable long term growth in earnings per share. Over this period, and up to 19 March 2013, NEXT has returned over £2.8bn to shareholders by way of share buybacks and almost £1.4bn 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. Share buybacks have not been made at the expense of investment in the business. Over the last five years, NEXT has invested over £570m in capital expenditure to support and grow the business.

Special resolution 17 will renew the authority for the Company to make market purchases (as defined in Section 693 of the Companies Act 2006) 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 24,169,000 ordinary shares of 10p each (being less than 15% of the issued share capital at 19 March 2013) and no more than 14.99% of the issued ordinary share capital outstanding at the date of the AGM, such limits to be reduced by the number of any shares to be purchased pursuant to special resolution 18: Off-market purchases of own shares, see below;
- (b) the payment per ordinary share is not less than 10p and not more than 105% of the average of the middle market price according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase or, if higher, the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and
- (c) the renewed authority will expire at the AGM in 2014 or, if earlier, 1 August 2014.

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, being in the interests of shareholders generally, 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 any shares purchased under this authority.

The repurchase of ordinary shares would give rise to a stamp duty liability of the Company at the rate of 0.5% of the consideration paid.

The total number of employee share options to subscribe for shares outstanding at 19 March 2013 was 8,468,294. This represents 5.3% of the issued share capital at that date. If the Company were to buy back the maximum number of shares permitted pursuant to both the existing authority granted at the 2012 AGM (which will expire at the 2013 AGM) and the authority sought by this resolution, then the total number of options to subscribe for shares outstanding at 19 March 2013 would represent 7.2% of the reduced issued share capital.

**Off-market purchases of own shares**

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 integral part of the Company's buyback strategy and 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. Pursuant to the authority granted at the 2012 AGM, and up to 19 March 2013, the Company bought back 650,190 shares for cancellation under such contracts at discounts of up to 6.4%.
- Low share liquidity can often prevent the Company from purchasing sufficient numbers of shares on a single day without risk of affecting the prevailing market price. Contingent contracts enable the Company to purchase shares over time without risk of distorting the prevailing share price, and also spreads the cash outflow.
- Contingent contracts entered into prior to any close period allow the Company 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.
- Competitive tendering involving up to five banks is used which minimises the risk of hidden purchase costs. The pricing mechanism ensures the Company retains the benefit of declared and forecast dividends.

As with any 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 and the overall financial position of the Company. The directors will only purchase shares using such contracts if, based on the contract

## DIRECTORS' REPORT AND BUSINESS REVIEW

discounted price (rather than any future price), it is earnings enhancing and promotes the success of the Company for the benefit of its shareholders generally. It is the directors' present intention to cancel any shares purchased under this authority.

Special resolution 18 will give the Company authority to enter into contingent purchase contracts with any of Goldman Sachs International, UBS AG, Deutsche Bank AG, HSBC Bank plc 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 maximum which the Company would be permitted to purchase pursuant to this authority would be the lower of 5,000,000 shares or a total cost of £200 million.

The principal features of the contracts are set out in Appendix 1 to the Notice of the AGM. Copies of the agreements the Company proposes to enter into with any of the banks (the "Programme Agreements") will be available for inspection at the registered office of the Company, and at the offices of Pinsent Masons, 30 Crown Place, Earl Street, London EC2A 4ES during normal working hours from the date of the Notice of the AGM up to the date of the AGM and at the Meeting itself.

### Notice of General Meetings

The notice period required by the Companies Act 2006 for general meetings of the Company is 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. However, the Company's AGM must always be held on at least 21 clear days' notice. At the AGM of the Company held in 2012, shareholders authorised the calling of general meetings other than an AGM on not less than 14 clear days' notice and it is proposed that this authority be renewed. The authority granted by special resolution 19, if passed, will be effective until the Company's AGM in 2014. In order to be able to call a general meeting on less than 21 clear days' notice, the Company will make electronic voting available to all shareholders for that meeting. The flexibility offered by this resolution will not be used as a matter of routine for such meetings, but only where the directors consider it appropriate, taking account of the business to be considered at the meeting and the interests of the Company and its shareholders as a whole.

### Recommendation

Your directors are of the opinion that all resolutions which are to be proposed at the 2013 AGM will promote the success of the Company and are in the best interests of its shareholders as a whole and, accordingly, unanimously recommend that you vote in favour of the resolutions.

### Share capital and major shareholders

Details of the Company's share capital are shown in Note 23 to the financial statements.

The Company was authorised by its shareholders at the 2012 AGM to purchase its own shares. During the year the Company purchased 7,509,924 ordinary shares with a nominal value of £750,992 (of which 1,825,190 were purchased off-market), at a cost of £241.3m, representing 4.5% of its issued share capital at the start of the year. These shares were cancelled.

On 26 January 2013 the Company had 161,234,237 shares in issue, which remained the same as at 19 March 2013.

The following information has been received from holders of notifiable interests in the Company's issued share capital:

	Notifications received up to 26 January 2013			Notifications received after 26 January 2013 up to 19 March 2013		
	No. of voting rights	% of voting rights*	Nature of holding	No. of voting rights	% of voting rights*	Nature of holding
FMR LLC (Fidelity)	23,068,634	14.14	Indirect interest	-	-	-
BlackRock, Inc.	22,892,356	13.98	Indirect interest	20,918,483	12.97	Indirect interest
Schroders plc	8,817,239	4.79	Indirect interest	-	-	-
NEXT plc Employee Share Option Trust	6,881,904	4.21	Direct interest	-	-	-

\*at date of notification

**Additional information**

*Shareholder and voting rights*

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting every member present in person and every duly appointed proxy 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 or represented. It is intended that voting at the 2013 AGM will be on a poll. The Notice of Meeting on pages 96 to 101 specifies deadlines for exercising voting rights.

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Governance  
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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.

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Consolidated accounts  
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The Company's articles of association may only be amended by a special resolution at a general meeting. Directors are elected or re-elected 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 a general meeting at least every three years. However, in line with the provisions of the UK Corporate Governance Code, all directors will stand for election at the 2013 AGM.

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Parent Company accounts  
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*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, in the event of a change of control, the Company's medium term borrowing facilities may be subject to early repayment if a majority of the lending banks give written notice to the Company within 30 days of the change of control. In addition, should a change of control cause a downgrading in the credit rating of the Company's 2013, 2016 and 2021 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 only applicable to a downgrade which occurs as a direct consequence of a change in control.

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Additional information

The Company's share option plans, and its long term incentive and share matching plans, contain provisions regarding a change of control. Outstanding options and awards may vest on a change of control, subject to the satisfaction of any relevant performance conditions.

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.

*Corporate governance*

The corporate governance statement as required by the UK Financial Services Authority's Disclosure and Transparency Rules (DTR 7.2.6) comprises the Additional Information section of the Directors' Report and the Corporate Governance statement included in this Annual Report.

By order of the Board

**Andrew McKinlay**  
Secretary  
21 March 2013

## DIRECTORS' RESPONSIBILITY STATEMENT

### Directors' responsibilities

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

Under company law the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, 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 in accordance with IAS8: *Accounting Policies, Changes in Accounting Estimates and Errors* 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 and the Group have 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 adequate accounting records that are sufficient to show and explain the Group's transactions and 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 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### 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 results 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.

On behalf of the Board

**Lord Wolfson of Aspley Guise**

Chief Executive

21 March 2013

**David Keens**

Group Finance Director

## DIRECTORS AND OFFICERS

### CHAIRMAN OF THE BOARD

#### John Barton

Aged 68. Became a member of the Board in 2002 and was appointed Deputy Chairman in 2004 and Chairman in 2006. He is also Chairman of Catlin Group Limited and previously served as Chief Executive of JIB Group plc, Chairman of Cable and Wireless Worldwide plc, Jardine Lloyd Thompson Group plc, Wellington Underwriting plc and Brit Insurance Holdings plc and as a non-executive director of WH Smith plc and Hammerson plc.

### EXECUTIVE DIRECTORS

#### Lord Wolfson of Aspley Guise, Chief Executive

Aged 45. 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 49. Joined the Group in 1986. Christos has a wealth of experience in the product area starting at NEXT as a Trainee Menswear Buyer and became General Manager of NEXT's sourcing office in Hong Kong in 1989, Menswear Product Director in 1994 and Womenswear Product Director in 1998. He was appointed to the Board in 2000 and has overall responsibility for all aspects of the design, buying, quality and merchandising of NEXT products.

#### David Keens, Group Finance Director

Aged 59. Joined NEXT in 1986 as Group Treasurer 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 multinational manufacturers of consumer goods, with roles including Group Treasurer and Finance Director. Professional qualifications include the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

#### Andrew Varley, Group Property Director

Aged 62. Joined the Group in 1985 and was appointed to the Board in 1990. Andrew's responsibilities include property, franchise, corporate responsibility and code of practice related matters. Previous experience includes twelve years in retail and commercial property. He is also a non-executive director of LondonMetric Property Investments plc and is a Fellow of the Royal Institute of Chartered Surveyors.

#### Company Secretary

Andrew McKinlay

### INDEPENDENT NON-EXECUTIVE DIRECTORS

#### Jonathan Dawson

##### Senior Independent Non-executive Director

Aged 61. Became a member of the Board in 2004. He is also a non-executive director of Jardine Lloyd Thompson Group plc and National Grid plc and a partner in Penfida Partners LLP. Previous experience includes non-executive directorships of National Australia Group Europe Ltd, Standard Life Investments (Holdings) Limited and GallifordTry plc, eight years in the Ministry of Defence and over twenty years in investment banking with Lazard.

#### Steve Barber

Aged 61. Became a member of the Board in 2007. Previous experience includes almost thirty years in the accountancy profession, principally with Price Waterhouse where he was a senior partner. Formerly Finance Director of Mirror Group and Chief Operating Officer of Whitehead Mann. Founder of The Objectivity Partnership and a member of the Audit Quality Forum.

#### Christine Cross

Aged 61. Became a member of the Board in 2005. She is also a non-executive director of Sonae Group Ltd (Portugal), Woolworths Limited (Australia) and Kathmandu Limited (New Zealand). Christine is also Chief Retail Advisor to PricewaterhouseCoopers and a retail advisor to Apax Partners and Warburg Pincus. Previous experience includes fourteen years as a director at Tesco plc and fifteen years lecturing and course director roles at Edinburgh and Bath Universities.

#### Francis Salway

Aged 55. Joined the Board in June 2010. He is also Chairman of Town & Country Housing Group and a non-executive director of Cadogan Group Limited. Formerly Chief Executive of Land Securities Group plc and past president of the British Property Federation.

#### Caroline Goodall

Aged 57. Became a member of the Board in January 2013. Caroline has thirty years' experience in the legal profession, with twenty years as a corporate finance partner at Herbert Smith, including five years as head of the Global Corporate Division. She is currently a non-executive director of SVG Capital plc and a non-executive on the Partnership Board of Grant Thornton UK LLP, and a trustee and member of the Council of the National Trust.

### BOARD COMMITTEES

#### Audit Committee

Steve Barber ( <i>Committee Chairman</i> )	Caroline Goodall
Christine Cross	Francis Salway
Jonathan Dawson	

#### Remuneration Committee

Jonathan Dawson ( <i>Committee Chairman</i> )	Christine Cross
Steve Barber	Caroline Goodall
John Barton	Francis Salway

#### Nomination Committee

John Barton ( <i>Committee Chairman</i> )	Jonathan Dawson
Steve Barber	Caroline Goodall
Christine Cross	Francis Salway

## CORPORATE GOVERNANCE

### Chairman's introduction

Effective corporate governance is essential to the success of our business.

As Chairman, my role is to manage the Board, ensuring it operates effectively and contains the right balance of skills and experience to successfully execute the strategy. The Board is collectively responsible for the long term success of the Company and for setting and executing the strategy.

Over many years, NEXT has successfully grown its business and created significant shareholder value against the backdrop of a challenging external environment. This is the ultimate measure of our success and reflects our strong corporate governance structure and the stable, effective management team we have in place. We remain committed to the robust approach to governance which has served the business well.

### Code compliance

The Group complied throughout the year under review with the provisions set out in the UK Corporate Governance Code and the UK FSA Disclosure and Transparency Rules. Disclosures required by DTR7.2.6 with regard to share capital are presented in the 'Share capital and major shareholders' and 'Additional information' sections of the Directors' Report.

### Board composition and succession

The Board includes five independent non-executive directors and the Chairman who bring considerable knowledge, judgement and experience to the Group. The Board has a good record of recruiting new non-executive directors at regular intervals to achieve appropriate rotation and continuity. The UK Corporate Governance Code states that Boards should pay particular attention to the independence of non-executives if they have served on the Board for more than nine years from the date of their first election. Jonathan Dawson is the longest serving non-executive director, having been first elected at the AGM in 2005 following his appointment the previous year. The ninth anniversary of his first election is therefore May 2014, although he will have served as a director for nine years in May 2013. The Board considers that all of its non-executive directors remain independent in character and judgement, and their knowledge, experience and other business interests continue to enable them to contribute significantly to the work of the Board. Terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours.

Appointments to the Board, as with other positions within the Group, are made on merit according to the balance of skills and experience offered by prospective candidates. Whilst acknowledging the benefits of diversity, individual appointments are made irrespective of personal characteristics such as race, religion or gender. The Board is comprised of eight male directors and two female directors. Below the Board, at senior management level there are 13 male directors and 11 female directors. NEXT has a successful history of promoting internal candidates to most senior management and executive Board positions through career development; it is expected that most future appointees will come from within the Group.

The Company's Articles of Association require directors to submit themselves for re-election by shareholders at least once every three years, however the Board has determined that all directors will stand for election at each AGM in accordance with the UK Corporate Governance Code.

### Board responsibilities

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. Board papers including reports from the Chief Executive and Finance, Property and Product Directors are circulated in advance of each Board meeting. 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 for each half year are revised and reviewed monthly. Certain other important matters are subject to weekly or monthly reporting to the Board or Board Committee, including sales, treasury operations and capital expenditure. There is a regular flow of written and verbal information between all directors irrespective of the timing of meetings.

All new directors receive a personalised induction programme, tailored to their experience, background and understanding of the Group's operations. Individual training needs are reviewed regularly and training is provided where a need is identified or requested. All directors receive frequent updates on a variety of issues relevant to the group's business, including regulatory and governance issues.

Meetings of the non-executive directors without the executive directors being present are held at least annually, both with and without the Chairman. 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.

The Board has appointed committees to carry out certain of its duties, three of which are detailed below. Each of these is chaired by a different director and has written terms of reference which are available for inspection on the Company's website ([www.nextplc.co.uk](http://www.nextplc.co.uk)) or on request.

### Attendance at meetings

The Board held seven formal meetings during the year and these were fully attended with the exception of one meeting which Mr Angelides was unable to attend. The Audit Committee, Remuneration Committee and Nomination Committee held four, five and three meetings in the year respectively and all serving members attended with the exception of one Remuneration Committee meeting which Ms Goodall was unable to attend and one Nomination Committee meeting which Mrs Cross was unable to attend.

### Audit Committee and external audit

The Committee consists of the five (previously four) independent non-executive directors including the senior non-executive director and at least one member (Steve Barber, the Committee Chairman) with recent and relevant financial experience.

The Committee holds regular, structured meetings and consults with external auditors and senior management, including internal audit, where appropriate. The Chairman of the Group, executive directors and other members of senior management attend meetings by invitation or as required.

The Committee's review of the interim and full year financial statements focused on the following significant areas:

- (a) Directory receivables and related provisions for doubtful debts which, at £601 m, represent the largest asset on the Group's balance sheet.
- (b) Pension fund accounting and actuarial reports. Prepared in accordance with International Accounting Standards, the Group's balance sheet shows a pension asset of £66m, and the income statement includes exceptional pension items of £36m as a result of events during the year. The assumptions underlying these calculations are highly sensitive to small changes, particularly in respect of discount rates (see Note 21 to the accounts).
- (c) Treasury transactions. The Group buys currencies forward in order to hedge its future product purchases, which in turn enables it to set its prices and margins. A number of different instruments are used to provide such cover and their valuation and accounting treatment is reviewed.
- (d) Provisioning. There is a need to make industry specific and other judgmental provisions, including against stocks, rates of customer returns, liabilities in respect of onerous leases, gift card redemptions, taxation and share schemes.

## CORPORATE GOVERNANCE

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These items were also addressed at the planning stage of the external audit and there were no significant disagreements between management and the external auditor's conclusions.

The Committee received reports and presentations from senior management on various activities of the Group, including international Directory operations, warehousing and distribution, Directory credit risk management, treasury, tax and corporate responsibility matters including the Code of Practice. The Group's internal control functions in areas such as finance, IT, security and product are regularly reviewed by the Committee. The Committee receives frequent briefings on health and safety, risk management, business continuity, whistle blowing and corporate governance generally.

The Committee had discussions with the external auditor on audit planning, fees, accounting policies, internal control and audit findings. Meetings were also held with the auditor without management present, and the effectiveness and independence of the auditor has been assessed.

The Audit Committee is responsible for recommending the appointment, reappointment and removal of the external auditor. Consideration is given each year to putting the audit out to tender, however it was not considered necessary during the current year. Ernst & Young has been the Group's auditor for over 20 years with regular partner rotation, most recently in 2012. The Committee is satisfied that they continue to possess the skills and experience required to fulfill their duties effectively and efficiently. The appointment of the external auditor will continue to be reviewed annually and a tendering process will be undertaken to coincide with the rotation of the current audit partner in 2017, or earlier if the Committee considers it appropriate.

Ernst & Young have reported to the 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 auditor, the Board has policies regarding the provision of non-audit services by the auditor. 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. Proposed assignments of non-audit services with anticipated fees in excess of £50,000 are generally 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 the auditor's existing knowledge of the Group enables them to provide the required services more cost-effectively than other parties, for example certain overseas taxation compliance services. The Group's auditor is prohibited from providing any services that would conflict with their statutory responsibilities.

The Committee has reviewed its terms of reference and composition and believes that both are appropriate.

### 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 which summarises the activities of the Committee.

### Nomination Committee

The Committee consists of the Chairman and five independent non-executive directors, including the senior non-executive director. The Committee meets whenever necessary to consider succession planning for directors and other senior executives, to ensure that requisite skills and expertise are available to the Board to address future challenges and opportunities.

External consultants have been used to assist in identifying suitable Board candidates, based on a written specification for each appointment. The Chairman is responsible for providing a shortlist of candidates for consideration by the Committee which then makes its recommendation for final approval by the Board.



## Chairman

There is a clear 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 that 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 27 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.

## Directors' conflicts of interest

In accordance with the Company's Articles of Association, the Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors consider the situation in conjunction with their general duties under the Companies Act 2006. They may impose limits or conditions when giving an authorisation, or subsequently if they think appropriate. Any situational conflicts considered by the Board, and any authorisations given, are recorded in the Board minutes and in a register of conflicts which is reviewed annually by the Board.

## Performance evaluation

The performance of the Board was formally and independently evaluated during the year by Pricewaterhouse Coopers. The review concluded that there were no significant weaknesses or risks that required attention.

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. The Chairman also monitors the performance of the non-executive directors.

## 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 including financial, operational, compliance and risk management. This includes identifying and evaluating key risks, determining control strategies 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.

## 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 adequate for the size, structure and business risks of the Group and is supplemented with appropriate external resources where needed.

The Board considers that the Group's management structure 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 develop risk management and internal controls where necessary.

The use of a Group accounting manual and prescribed reporting requirements for finance teams throughout the Group ensures that the Group's accounting policies are clearly established and consistently applied. Information is appropriately reviewed and reconciled as part of the reporting process and the use of a standard reporting package by all entities in the Group ensures that information is presented consistently to facilitate the production of the consolidated financial statements.

### 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 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's 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, interim management statements and other regular trading 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 attend other meetings with shareholders if requested. 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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report and Business Review. The Directors' Report also describes the Group's financial position, cash flows and borrowing facilities, further information on which is detailed in the financial statements. Information on the Group's financial management objectives, and how derivative instruments are used to hedge its capital, credit and liquidity risks is provided in Notes 27 to 30 of the financial statements.

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 sets out the remuneration of NEXT's directors for the year to January 2013 and is in three parts: (1) overview of the year, (2) remuneration strategy, and (3) regulatory disclosures under Schedule 8 to the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008, the UK Listing Rules and the UK Corporate Governance Code. The Board confirms that the Company has complied with these regulations throughout the year. We have also included some of the new disclosures proposed by the Department for Business Innovation & Skills (BIS), notably a table showing a single total figure for remuneration and a summary of the Company's remuneration policy in tabular format.

### PART 1: OVERVIEW OF THE YEAR

*Information not subject to audit*

#### Company performance

NEXT has again achieved record pre-tax profits and earnings per share (EPS). Underlying pre-tax profits of £622m were 9% higher than last year and underlying EPS of 298p were 16.6% higher. The key financial objective remains long term sustainable growth in EPS. Therefore EPS is used to determine the executive directors' annual bonus and the level of any entitlement under the Share Matching Plan (SMP). The Committee also assesses EPS performance and other factors in evaluating whether the general economic underpin test for the Company's Long Term Incentive Plan (LTIP) has been satisfied. The Committee considers that this strong EPS performance fully justifies the bonuses and long term incentives earned by the executive directors and other senior executives during the year.

#### Annual bonus and base salaries

At the start of the year, the Committee set targets for EPS growth, details of which are shown on page 39. This year's strong growth in EPS resulted in annual bonus for executive directors of 99% of the maximum potential award. It should also be noted that, like last year, we excluded exceptional gains of £45m from this EPS calculation (2012: exceptional gains of £47m excluded).

Base salaries for executive directors were increased by 2.0% in February 2013 (having increased by 1.2% in 2011 and 2.5% in 2012) in line with wider company cost of living awards. We consider that increases in base salaries should continue to be restrained given the potentially significant multiplier effect of such increases on future costs.

#### LTIP

Under the LTIP a variable percentage of a maximum number of shares granted at the start of each performance period can vest, depending on NEXT's relative TSR performance against a comparator group of some 20 other UK retailers. The maximum number of shares that may be granted is a percentage of each director's base salary, divided by NEXT's average share price over the three months prior to the start of the performance period. Details of grants and of the comparator group are set out on pages 44 and 45.

Since 2008 NEXT has made grants twice a year, rather than annually, and two awards matured in the year. Over the performance periods of these grants, i.e. between August 2009 to January 2013, NEXT's share price rose from 1705p to 4059p and market capitalisation grew from £3.4 billion to £6.5 billion, a further £855m was returned through share buybacks and £449m paid in dividends.

The LTIP that matured in July 2012 vested 96% when NEXT's TSR ranked fifth against the comparator group and 98% of the January 2013 LTIP is expected to vest as its TSR also ranked fifth against the comparator group. This vesting is subject to the Committee's review of the economic underpin performance condition in April.

The value of these two LTIPs is high; this is largely due to the rise in the Company's share price over the performance periods as there was no increase in the maximum number of shares originally granted. Last year, we decided that the maximum value of LTIPs vesting for any participant in any one year should be capped at £2.5m and the Chief Executive's LTIP payments last year were reduced by £704k. This year the £2.5m cap will again be applied and, assuming the Committee confirms the grant maturing in January 2013 has vested, payments to Lord Wolfson and Christos Angelides will be reduced by an estimated £327k and £11k respectively.

After applying this cap, the total value to the executive directors of the two LTIPs is estimated at £7.5m, of which approximately 51% or £3.8m is attributable to the growth in share price over the performance periods.

## REMUNERATION REPORT

### SMP

Shareholders approved the SMP in 2010. The purpose of the plan is to encourage ownership of NEXT shares amongst executive directors and other senior executives, and thereby further align their interests with shareholders. For the 2010 grant, which is due to vest in June 2013, some 25 senior executives were able to reinvest part, or all, of their annual bonus in NEXT shares. Subject to growth in fully diluted EPS over three years, participants are eligible to receive matching shares for every share bought.

Fully diluted EPS for 2012/13 was 280.8p (excluding exceptional gains). This compares with 176.0p for 2009/10, and represents growth of 60% over the three year period. As a result of this strong performance, the 2010 SMP will vest in full in June 2013, subject to the continued employment of participants. Lord Wolfson has waived his potential entitlement under this SMP on the understanding that all NEXT employees who have been employed since January 2010 will share an equivalent amount by way of a special bonus in July 2013, pro rata to their annual salary. The estimated value of the amount waived by Lord Wolfson (based on the methodology proposed by BIS) is £2.4m. The estimated total pre-tax value for other executive directors is £4.6m, of which £2.1m (46%) derives from the growth in NEXT's share price since buying their SMP shares.

### Total performance-related remuneration

The aggregate performance-related remuneration of the executive directors has increased from £8.7m last year to approximately £9.9m (see pages 49 and 50). This remuneration is directly linked to strong profits and EPS growth, which have been reflected in NEXT's increased share price and therefore the value of shares in the LTIP.

**The Remuneration Committee has carefully reviewed the level of performance-related remuneration earned by the executive directors. The Committee considers that it is a strong reflection of NEXT's operating and financial performance over the past three years and that it is aligned with the financial interests of shareholders generally.**

### Additional remuneration disclosures

The tables below give a single figure for total remuneration, split between fixed and performance-related elements, for the current and previous years and are based on methodologies proposed by BIS which differ from current regulations:

2012/13 £'000	Base pay					Performance-related pay					Total remuneration
	Salary/fee	Benefits	Pension <sup>1</sup>	Salary Supplement <sup>2</sup>	Sub-total	Annual bonus	Share Matching LTIP <sup>3</sup>	Share-save Plan <sup>4</sup>	Share-save	Sub-total	
<b>Chairman</b>											
John Barton	250	-	-	-	250	-	-	-	-	-	250
<b>Executive directors</b>											
Lord Wolfson	714	45	280	27	1,066	1,064	2,500	-	-	3,564	4,630
Christos Angelides	519	33	220	19	791	514	2,398	1,725	-	4,637	5,428
David Keens	477	19	-	72	568	472	1,352	1,675	-	3,499	4,067
Andrew Varley	355	27	-	53	435	351	1,006	1,204	-	2,561	2,996
<b>Non-executive directors</b>											
Steve Barber	60	-	-	-	60	-	-	-	-	-	60
Christine Cross	50	-	-	-	50	-	-	-	-	-	50
Jonathan Dawson	70	-	-	-	70	-	-	-	-	-	70
Caroline Goodall	4	-	-	-	4	-	-	-	-	-	4
Francis Salway	50	-	-	-	50	-	-	-	-	-	50
	<b>2,549</b>	<b>124</b>	<b>500</b>	<b>171</b>	<b>3,344</b>	<b>2,401</b>	<b>7,256</b>	<b>4,604</b>	<b>-</b>	<b>14,261</b>	<b>17,605</b>

2011/12 £'000	Base pay					Performance-related pay					Total remuneration
	Salary/fee	Benefits	Pension <sup>1</sup>	Salary Supplement <sup>2</sup>	Sub-total	Annual bonus	Share Matching LTIP <sup>3</sup>	Share Plan <sup>4</sup>	Share-save	Sub-total	
<b>Chairman</b>											
John Barton	250	-	-	-	250	-	-	-	-	-	250
<b>Executive directors</b>											
Lord Wolfson	697	36	120	-	853	753	2,500	-	-	3,253	4,106
Christos Angelides	506	30	60	-	596	364	1,673	-	2	2,039	2,635
David Keens	466	19	-	46	531	385	1,602	-	1	1,988	2,519
Andrew Varley	346	30	-	49	425	249	1,193	-	2	1,444	1,869
<b>Non-executive directors</b>											
Steve Barber	60	-	-	-	60	-	-	-	-	-	60
Christine Cross	50	-	-	-	50	-	-	-	-	-	50
Jonathan Dawson	70	-	-	-	70	-	-	-	-	-	70
Francis Salway	50	-	-	-	50	-	-	-	-	-	50
	2,495	115	180	95	2,885	1,751	6,968	-	5	8,724	11,609

## Measurement bases for elements of total remuneration

<sup>1</sup> Pension values are calculated using the HMRC method proposed by BIS, i.e. 20 times the post-inflation benefit for defined benefit pensions. It does not necessarily represent the economic value of the pension accrual and is not immediately available to the relevant director. The increase in pension values for Lord Wolfson and Christos Angelides over the two financial years is entirely due to the effect of inflation and not to any change in the underlying accrued annual pre-inflation benefit. Where the accrued value is negative, a value of zero is used.

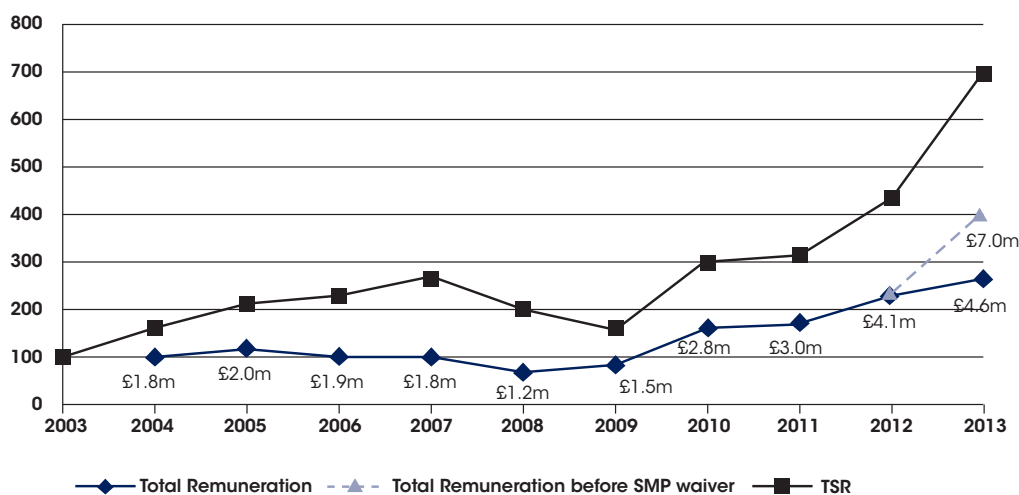
<sup>2</sup> Supplements of 15% of base salary are paid in lieu of pension provision after the directors became deferred members of the defined benefit section of the NEXT Pension Plan. Andrew Varley and David Keens received this supplement from April and June 2011 respectively and Lord Wolfson and Christos Angelides from November 2012.

<sup>3</sup> LTIP values for 2012/13 comprise the actual value of awards that have vested and been paid for the performance period ending in July, together with the **estimated** value of awards that will vest for the performance period ending in January, based on the average NEXT share price over the last financial quarter. For 2011/12 these are the actual value of the LTIP awards.

<sup>4</sup> SMP values for 2012/13 assume a maximum vesting in June 2013 and are based on the average NEXT share price over the last financial quarter. As detailed above, Lord Wolfson has waived his potential entitlement to the June 2010 SMP which will mature in June 2013.

We continue to focus on the alignment of executive remuneration and long term growth in shareholder value. The graph below charts total annual remuneration of Lord Wolfson against TSR over the last 10 years and shows that TSR grew by 430% more than the Chief Executive's remuneration, or by 290% excluding the SMP waiver.

### 10 year CEO Pay and NEXT TSR



## REMUNERATION REPORT

### Other Remuneration Committee highlights

In addition, during the year we determined the following:

- EPS growth targets for executive directors' annual bonus for 2013/14 and review of consistency with bonus targets for other NEXT staff.
- Additional eligibility criteria for participation in future SMP investments whereby participants who sell their investment shares prior to or after a new SMP is made will have restrictions placed on the level of investment they can make or the number of matching shares that can vest.
- Introduction of a minimum NEXT shareholding for all executive directors; the Chief Executive is required to hold shares with a value at least 1.5 times pre-tax salary, with other executive directors holding shares equal to their annual salary. All executive directors currently exceed these requirements. New executive directors would have up to 5 years to achieve the required holding.
- In line with changes to the defined benefits section of the NEXT Group Pension Plan set out on page 47, the pension entitlements of Lord Wolfson and Christos Angelides under the unfunded unapproved pension arrangement have been amended to freeze the accrual of future benefits under the unfunded arrangement based on their base salaries at 31 October 2012. From that date, Lord Wolfson and Mr Angelides have received an annual salary supplement of 15% of their base salary, which does not attract bonus.

**The Committee believes NEXT's remuneration strategy, and the structures implementing that strategy, have contributed positively to maintaining the stable and highly motivated management team at NEXT who have continued to deliver consistently strong performances for shareholders.**

### PART 2: REMUNERATION STRATEGY AND POLICY

*Information not subject to audit*

The Committee's objective is to ensure that the remuneration paid to senior executives is appropriate in both amount and structure, is directly linked to the Company's annual and longer term performance and in alignment with the interests of shareholders. We believe that stable and transparent remuneration structures are key elements in a fair system for rewarding personal and collective contribution across the business. There are bonus structures throughout the Company, including Head Office, stores, call centres and warehouses. The focus is on ensuring that a competitive and appropriate base salary is paid to directors and senior managers, together with incentive arrangements that are:

- aligned with shareholders' interests and with long term business strategies;
- measured against challenging benchmarks, including both absolute financial targets (which are set in advance) and relative share price performance;
- a mix of annual and three year performance periods;
- paid in a combination of cash and shares; and
- transparent and without 'soft' non-financial targets which could otherwise allow undue discretion to award bonuses that do not reflect actual financial performance.

Pay and employment conditions elsewhere in the Group are considered to ensure that any differences for directors are justified. Remuneration policy does not conflict with the Company's approach to environmental, social and corporate governance matters and we believe the current arrangements do not encourage directors to take undue business risks.

We aim to maintain a stable remuneration structure whereby directors and senior management know at the start of each year the potential rewards available to them, and the performance thresholds, without awarding significant increases in base salaries. Over the past three years, general salary levels for all grades across NEXT, including directors, have risen by an annual average rate of 1.9%. Individual merit awards are only given after a careful assessment of personal performance. No executive director has received a merit or promotion award during the last three years. For the current year, base salaries across NEXT and for directors will rise by 2.0%, which is again below the level of inflation.

We give careful consideration to ensuring that there is an appropriate balance in the remuneration structure between annual and long term rewards, as well as between cash and share-based payments. We recognise that corporate performance and share price performance may not be correlated in any single accounting period. Notwithstanding this, we believe that the present weighting towards rewarding sustainable long term performance is well aligned with shareholders' interests. This is evident from the high proportion of directors' performance-related pay in the year that derived from growth in EPS and share price, as opposed to increases in salaries or annual bonus.

### EPS and performance measurement

The Committee reviews each year the basis of annual bonus and performance thresholds for the SMP. We have again concluded that EPS remains the most appropriate measurement for the following reasons:

- We have used EPS as the determining measurement for many years; it is therefore consistent and transparent to participants and shareholders. The Committee will exercise discretion if required to adjust EPS to reflect what it considers to be a fairer outcome for shareholders and executives. Thus, last year the Committee decided to exclude from the calculation of EPS the exceptional profit achieved on the sale of Ventura and the proceeds of a refund of VAT. This year we have excluded the exceptional profit on the sale of a development property and the accounting gain resulting from changes to the defined benefit pension scheme.
- NEXT is predominantly a single business selling products through a number of channels under the NEXT brand. No significant earnings are derived from uncorrelated businesses and therefore a group metric such as EPS is logical and consistent with strategy;
- EPS continues to be the core financial measure by which the Board assesses overall performance; and
- the use of EPS in determining annual bonuses and the SMP is complemented by the application of TSR for the LTIP.

We consider it right that the impact of share buybacks on EPS should be included in performance measurement as, for more than a decade, share buybacks have been one of NEXT's primary strategies in generating value for shareholders. Share buybacks are regularly considered by the Board and are subject to prior approval as to timing, price and volume. Shares are only bought after the Board is satisfied that the ability to invest in the business and to continue to grow the dividend would not be prejudiced. Consistent with the clear focus on long term growth in EPS, the Board takes great care to manage the dilutive impact on shareholders of the various share-based schemes available to directors and other employees. The Company regularly purchases shares in the market and holds them in NEXT's Employee Share Option Trust (ESOT) for reissue to satisfy option exercises and other share-based payments.

## REMUNERATION REPORT

### REMUNERATION POLICY TABLE

The following table summarises the objectives and policies with regard to each of the elements of executive remuneration and the approach to payments on external recruitment and termination.

Element of pay	Purpose and link to strategy	Operation	Maximum potential value
<b>Salary</b>	To provide a satisfactory base salary within a total package comprising salary and performance-related pay. Performance-related components and certain benefits are calculated by reference to base salary. The level of salary broadly reflects the value of the individual, their role, skills and experience.	Reviewed annually, effective February. The Committee focuses particularly on ensuring that an appropriate base salary is paid to directors and senior managers. The Committee considers salaries in the context of overall packages with reference to market data, individual experience and performance, and the level and structure of remuneration for other employees and the external environment. External benchmarking analysis is occasionally undertaken.	There is no guaranteed or maximum annual increase. The Committee considers it important that base salary increases are kept under tight control given the potential multiplier effect of such increases on future costs. In the last 3 years, salaries have been increased in line with the wider company cost of living awards.
<b>Annual bonus</b>	To incentivise annual delivery of stretching financial goals. Provides focus on the Company's key financial objective of sustainable growth in EPS.  To provide a retention element in the case of the Chief Executive as any annual bonus in excess of 100% of base salary is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period.	Based on stretching pre-tax EPS targets set annually, taking account of a range of factors including the company's own internal budgets and the wider background of the UK economy. Pre-tax EPS has been chosen as the basic metric to avoid executives benefitting from external factors such as reductions in the rate of corporation tax. The philosophy has been to structure targets such that there has to have been growth in EPS before any annual bonus is payable to executive directors. By contrast we have set the threshold for staff bonuses at a lower level than for directors. We have the right to apply discretion in the interests of fairness to both shareholders and executives by adjusting the basis for calculating EPS, e.g. to take account of any exceptional items.	A maximum bonus of 150% of salary for the Chief Executive and 100% of salary for other executive directors.
<b>Long Term Incentive Plan (LTIP)</b>	To incentivise three year total shareholder return relative to a selected group of retail companies.  Provides focus on delivering superior returns to shareholders.  Retention of key employees over three-year performance periods.	A variable percentage of a pre-determined maximum number of shares can vest, depending on relative total shareholder return (TSR) performance against a comparator group of retail companies (shown on page 44).  The maximum number of shares that may be awarded to each director is a percentage of each director's base salary at the date of each award, divided by NEXT's average share price over the three months prior to the start of the performance period.  LTIP awards are made twice a year to reduce the volatility inherent in the TSR performance measure and to enhance the portfolio effect for participants of more frequent, but smaller LTIP grants.	The Chief Executive, other executive directors and senior management receive grants equal to 100%, 75% and 60% of annual salary respectively every six months.  For Christos Angelides, in recognition of the strategic importance of his product skills, each of the four semi-annual LTIP awards with performance periods ending July 2012 through to January 2014 were increased from 75% of salary to 125%.  The maximum aggregate annual award allowed under the current plan rules is 200% of base salary (300% in exceptional circumstances). With effect from 2011/12 the maximum value of any LTIP awards that vest for a participant in a year has been capped at £2.5m.



**Performance targets**

Not applicable

**Changes for 2012 and 2013**

In line with the current policy, base salaries of the executive directors increased by 2.0% in February 2013, in line with the wider company cost of living awards.

The base salaries for the executive directors with effect from February 2013 will be:

	£'000
Lord Wolfson	729
Christos Angelides	529
David Keens	487
Andrew Varley	362

For the year to January 2013, performance targets were set requiring pre-tax EPS of 357.4p before any bonus became payable, growth of 5% on the prior year. At this point bonus would be 30% of salary in the case of the Chief Executive and 20% of salary for other executive directors. A maximum bonus of 150% and 100% of salary for the Chief Executive and the other executive directors respectively was payable if pre-tax EPS exceeded 391.4p, growth of 15%. A straight sliding scale of payments operated for performance between the minimum and maximum levels.

For 2012/13 actual pre-tax EPS achieved, excluding £44.9m of exceptional gains, was 391.1p, growth of 14.9%. Accordingly, a bonus of 149% of salary for the Chief Executive and 99% of salary for the other executive directors was earned.

Bonus performance targets for the year ahead have been set but are not disclosed in advance for reasons of commercial sensitivity. The targets and performance will be disclosed in next year's Remuneration Report.

Performance is measured over periods of three years, which commence in February and August, by comparing TSR against some 20 other UK listed retail companies.

Relative performance	Percentage vesting
Below median	0%
Median	20%
Upper quintile	100%

If no entitlement has been earned at the end of a three year performance period then that award will lapse; there is no retesting.

Before any of the awards vest, the Remuneration Committee must have regard to the performance of the Company in light of underlying economic and other circumstances, including EPS performance of the Company and of other UK retailers over the period. Whilst not disclosed in advance, the factors taken into account in determining the awards are disclosed in the relevant year's Remuneration Report.

The grant that matured in July 2012 vested 96% as the TSR ranked fifth out of 22 in the comparator group. The Remuneration Committee also assessed the performance of NEXT during the performance period and determined that the economic underpin performance condition had been satisfied.

The grant that matured in January 2013 is expected to vest at 98% as the TSR ranked fifth. This vesting is subject to review of the economic underpin performance condition in April.

## REMUNERATION REPORT

Element of pay	Purpose and link to strategy	Operation	Maximum potential value
<b>Share Matching Plan (SMP)</b>	To encourage greater ownership of NEXT shares amongst the executive directors and other senior executives and thereby further align their interests with shareholders.	Participants who invest a proportion of any annual cash bonus in NEXT shares can receive up to a maximum of two times their original share investment, calculated on a pre-tax basis. Any matching is conditional upon achieving fully diluted EPS growth targets for the following three years. The executive directors and around 20 other senior executives participate in the scheme.	Having initiated the SMP in 2010 with a maximum matching ratio of two times, the Committee decided in 2012 to cap the level of investment for each participant and reduce the scale of potential matching from a maximum of two times to a maximum of one times the initial investment. The maximum matching award allowed under the plan rules is three times. This may be granted if considered appropriate but the Committee would consult with major shareholders before doing so.
<b>Pension</b>	To provide post-retirement benefits or cash alternative.	<p>All executive directors are deferred members of the defined benefit section of the NEXT Group Pension Plan.</p> <p>Since becoming deferred members of the defined benefit section of the Plan, Lord Wolfson and Christos Angelides have contributed to the unfunded, unapproved pension arrangement. They ceased to contribute to this arrangement during 2012. Andrew Varley and David Keens ceased to contribute to the Plan in October 2008 and May 2011 respectively. Their pensions are no longer linked to salary and will increase in line with statutory deferred revaluation.</p> <p>Executive directors now receive salary supplements of 15% in lieu of pension provision. These supplements are less than the contributions the Company would otherwise make to the defined benefit section of the Plan.</p>	Directors and some senior managers receive enhancements 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. The lump sum payable on death is four times base salary.
<b>Other Benefits</b>	To provide market competitive non-cash benefits.	<p>Executive directors receive benefits which may include the provision of a company car or cash alternative, private medical insurance, subscriptions to professional bodies and staff discount on Group merchandise.</p> <p>Non-executive directors receive staff discount on Group merchandise but do not participate in any of the Group's bonus, pension, share option or other incentive schemes.</p>	Not applicable
<b>Share ownership guidelines</b>	To align the interests of executive directors and shareholders.	For the Chief Executive the minimum shareholding is 1.5 times his pre-tax salary and for other executive directors not less than equal to their salary.	Not applicable
<b>Recruitment awards</b>	To enable the recruitment of key executives.	Any awards determined at the time of recruitment by the Committee to reflect the individual circumstances.	Any recruitment awards may have reference to the value of any outstanding awards forgone by the potential recruit.

**Performance targets**

Vesting of the awards granted in 2012 is dependent on achieving the fully diluted post-tax EPS targets detailed on page 45.

**Changes for 2012 and 2013**

The amount of annual bonus that may be invested under the SMP in 2013 is the lower of an individual's post-tax bonus and a maximum amount of between £100,000 (2012: £50,000) and £200,000 (2012: £125,000). The matching award remains at a maximum of one times the initial investment.

The minimum match of 0.25 of a share requires fully diluted EPS growth of 12% and the maximum match of one times requires growth of 30% over the three year performance period.

As noted on page 34, Lord Wolfson has waived his potential entitlement to the SMP granted in 2010 and due to mature in June 2013.

Not applicable

In line with changes to the defined benefits section of the NEXT Group Pension Plan, the future pension entitlements of Lord Wolfson and Christos Angelides under the unfunded unapproved pension arrangement will be calculated by reference to their base salaries at 31 October 2012, rather than final earnings. From that date, Lord Wolfson and Mr Angelides have received an annual salary supplement of 15% of their base salary.

Not applicable

Not applicable

Not applicable

This requirement was introduced in 2012, although all executives have had significant shareholdings in excess of these minimums for many years. Any newly appointed executive director has up to five years to acquire the minimum shareholding.

Performance conditions would normally be based on NEXT performance, although any awards made to replace those forfeited as a result of joining NEXT may, in exceptional circumstances, be made without performance conditions if necessary.

No recruitment awards were made during the year.

## REMUNERATION REPORT

Element of pay	Purpose and link to strategy	Operation	Maximum potential value
<b>Termination payments</b>	In line with market practice, to ensure NEXT can recruit and retain key executives, whilst protecting the Company from making payments for failure.	<p>In practice, the Committee would consider the need for and quantum of any termination payments having regard to all of the relevant facts and circumstances at that time.</p> <p>Any future service contracts will take into account relevant published guidance.</p>	<p>Each of the executive directors has a rolling service contract which commenced on 14 March 2013 and which is terminable by the company on giving one year's notice. The Company has reserved the right to make a payment in lieu of notice on termination of an executive director's contract equal to their base salary and contractual benefits (excluding performance-related pay). If notice of termination is given immediately following a change of control of the Company, the executive director may request immediate termination of his contract and payment of liquidated damages equal to the value of his base salary and contractual benefits.</p> <p>In normal circumstances executives have no entitlement in respect of loss of performance bonuses and all share awards would lapse following resignation. However, under certain circumstances (e.g. 'good leaver' or change in control), and solely at the Committee's discretion, annual bonus payments may be made and would ordinarily be calculated up to the date of termination only. In addition, awards made under the LTIP and SMP would generally be time pro-rated and remain subject to the application of the performance conditions at the normal measurement date.</p> <p>In the event of any termination payment being made to a director (including any performance-related pay elements), the Committee will take full account of that director's duty to mitigate any loss and, where appropriate, the Committee may seek independent professional advice and consider the views of shareholders as expressed in published guidance prior to authorising such payment.</p>
<b>Chairman and non-executive director fees</b>	<p>To ensure fees paid to the Chairman and non-executive directors are competitive and comparable with other companies of equivalent size and complexity.</p> <p>Additional fees are paid to non-executive directors who chair the Remuneration and Audit Committees, and the Senior Independent Director.</p> <p>Remuneration of the non-executive directors is determined by the Chairman and the executive directors.</p>	<p>The Chairman is paid monthly and non-executive directors are paid quarterly.</p> <p>Fee levels for non-executive directors are reviewed bi-annually.</p>	<p>The Chairman was paid a fee of £250,000 per annum and the basic non-executive director fee was £50,000, with a further £10,000 paid to the Chairmen of the Audit and Remuneration Committees, and to the Senior Independent Director.</p>
<b>Claw-back</b>	<p>Claw-back provisions are to be included in the service contracts for all executive directors and will be enforced where appropriate to recover performance-related remuneration which has been overpaid due to: a material misstatement of the Company's accounts; errors made in the calculation of an award; or a director's misconduct.</p>		

**Performance targets**

Not applicable

**Changes for 2012 and 2013**

No compensation payments on termination of employment were made during the year.

**Governance**

Consolidated accounts

Parent Company accounts

Non-executive directors do not participate in bonus or share-based incentive arrangements.

The fees payable to the Chairman and non-executive directors increased in February 2013 as follows. The previous increase was in 2011.

	£'000	Increase
Chairman	255.0	2%
Base fee for non-executives	52.5	5%
Further fee payable to Chairmen of Audit and Remuneration Committees and to the SID	10.5	5%

Additional information

## REMUNERATION REPORT

### PART 3: ADDITIONAL REGULATORY DISCLOSURES

*Information not subject to audit*

Further details of each of the components of the directors' remuneration are given in the report below.

#### THE REMUNERATION COMMITTEE

During the year the Committee comprised the following independent non-executive directors:

Jonathan Dawson (Committee Chairman)  
 Steve Barber  
 John Barton  
 Christine Cross  
 Francis Salway  
 Caroline Goodall (from January 2013)

The Committee met five times during the year under review and all meetings were fully attended with the exception of one which Caroline Goodall was unable to attend due to other commitments relating to her induction as a director of NEXT.

#### Role of Remuneration Committee

The Committee determines the remuneration of the Group's Chairman and executive directors, and reviews that of senior executives. It is also responsible for determining the targets for performance-related pay schemes, approves any award of the Company's shares under share option or incentive schemes to employees and oversees any major changes in employee benefit structures. 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. The remuneration of non-executive directors is decided by the Chairman and executive directors of the Board. The Committee's terms of reference are available on the Company's website ([www.nextplc.co.uk](http://www.nextplc.co.uk)) or on request from the Company Secretary.

#### Assistance to the Committee

During the period the Committee received input from the Chief Executive and Group Finance Director and retained the services of Aon Hewitt and FIT Remuneration Consultants LLP to provide independent external advice regarding executive remuneration. These advisors have no other connection with the Company. PricewaterhouseCoopers provided independent verification services of total shareholder returns for NEXT and the comparator group of companies under the long term incentive plan (LTIP).

#### Additional information on Board remuneration

##### LTIP

The comparator group of companies for the three year performance periods to July 2012 and January 2013 was as follows:

ASOS	Findel	J Sainsbury	N Brown
Burberry	French Connection	Kesa	Signet
Carpetright	Halfords	Kingfisher	Tesco
Carphone Warehouse	HMV	Marks & Spencer	WH Smith
Debenhams	Home Retail Group	Morrisons	
Dixons Retail	JJB Sports	Mothercare	

For subsequent performance periods the changes to the comparator group above are:

1. periods ending July 2013 and January 2014 - Ted Baker added and Findel, French Connection and JJB Sports removed;
2. period ending July 2014 - Supergroup added and Signet removed; and
3. periods ending January 2015 and July 2015 - Dunelm Group added and HMV removed.

The comparator group consists of UK listed retail companies which are most comparable with NEXT in size or nature of their business. Comparison against such a group of companies is more likely to reflect the Company's relative performance against its peers, thereby resulting in grants being made on an appropriate basis.

Details of potential awards granted for outstanding performance periods are as follows:

Performance periods commencing	Maximum potential award granted (% of base salary)			
	Lord Wolfson	Christos Angelides	David Keens & Andrew Varley	Other employees
August 2010 and February 2011	100%	125%	75%	60%
August 2011, February 2012 and August 2012	100%	75%	75%	60%

The Committee 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. No individuals included in the plan have received grants under the management share option scheme in the same year.

### Share Matching Plan

Vesting of awards is dependent solely on achieving the fully diluted post-tax EPS targets detailed below.

Date of grant	Required fully diluted EPS (pence)		
	For 0.5:1 match	For 1:1 match	For 2:1 match
June 2010	191.5	206.5	221.5
April 2011	231.3	240.2	258.1
April 2012	For 0.25:1 match	For 0.5:1 match	For 1:1 match
	267.2	281.5	310.2

These targets require a minimum three year growth in EPS of 8.8% (2010 award) and 12% (2011 and 2012 awards) before any shares vest and a maximum award is only achieved if EPS growth reaches 25.8%, 25% and 30% respectively over three years. The effective matching ratio will be calculated on a straight line basis for EPS falling between each of the threshold points. Details of the calculation of fully diluted EPS are provided in Note 9. The Committee has reviewed the performance conditions of awards to be made in 2013 and for the period to January 2016, the fully diluted EPS hurdle will be 314.5 pence (12% growth) for a minimum match of 0.25 of a share to vest and 365.0 pence (30% growth) for the maximum match of one share.

## REMUNERATION REPORT

### *Management share options*

The management share option plan provides for options over shares, exercisable between three and ten years following their grant, to be allocated to Group employees. This plan is primarily aimed at middle management and senior store staff. No options were granted to any directors or changes made to existing entitlements in the year under review. No employee is entitled to be granted options under the scheme and be included in the LTIP or the SMP in the same year.

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, which are generally made annually. 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. This limit may be increased to five times salary in circumstances considered by the Committee to be exceptional, for example on the grant of options following recruitment. The maximum grant during the year was 120% of salary.

### *Sharesave options*

Executive directors can participate in the Company's Save As You Earn (Sharesave) scheme which is open to all employees. Grants are generally made annually and the scheme is subject to HMRC rules which limit the maximum monthly savings to £250. Options are granted at a discount of 20% to the prevailing market rate and are exercisable three, five or seven years from the date of grant. Sharesave options granted to, or exercised by, directors in the year are detailed on page 52.

### **Dilution of share capital by employee share plans**

The Company monitors and has complied with dilution limits in its various share scheme rules and has not issued a significant number of new or treasury shares in satisfaction of share schemes in the last 10 years. Share-based incentives are usually satisfied from shares held by the ESOT – see Note 26.

### **Group pension plan**

Executive directors are members 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. No director of the Company is a director of the Trustee.

The Plan's investments are kept separate from the business 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.

The Group operates a salary sacrifice scheme whereby members from either section can elect to receive a reduced gross salary in exchange for enhanced employer pension contributions. The participation of members in the salary sacrifice scheme does not result in any overall increase in costs to the Group.

### *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 base salary at the previous April is payable along with the current value of the member's fund.



*Defined benefit section*

The defined benefit section was closed to new members in 2000 and during the current year the Group reviewed its operation for remaining employee members. Following a consultation process with those employees, from November 2012 the future accrual of pension benefits will be based on pensionable salary frozen at that time, rather than final earnings. In addition, those employees can elect to receive either a salary supplement or additional contributions to a defined contribution scheme. From November 2012, the defined benefit section provides members with a retirement benefit of one sixtieth or one eightieth (depending on the member's chosen contribution rate) of pensionable earnings at 31 October 2012 for each year of pensionable service.

This section provides a lump sum death in service benefit and dependants' pensions on death in service or following retirement. Pensions are only payable to deceased members' children after 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. From 2006, sales and profit related bonuses were excluded from pensionable earnings and the normal retirement age under the Plan was increased from 60 to 65.

Members contribute 3% or 5% of pensionable earnings, whilst the Company currently makes contributions at the rate of 17.5%. The last full triennial valuation of the Plan was carried out as at March 2010, the next will take place as at March 2013. As calculated in accordance with International Financial Reporting Standards, the surplus in the Plan at January 2013 was £65.6m; further details are given in Note 21 to the financial statements.

Certain members whose accrued or projected pension fund value exceeds their personal lifetime allowance are provided with benefits through an unfunded, unapproved arrangement. The relevant members contribute towards the additional cost of providing these benefits by a deduction of 5% on all pensionable earnings. Since April 2011, where existing members have reached either the annual or lifetime pension contributions limits, the Company has offered those members the choice of leaving the defined benefit section and either joining the defined contribution section (with an enhanced Company contribution) or taking a salary supplement, in both cases equal to 10% or 15% of their salary (depending on their existing contributions and benefits).

*Auto-Enrolment*

Following the introduction of Auto-Enrolment (A-E) in 2012, most employees now have the option of joining the NEXT plan, the statutory A-E plan or opting out of pension provision through the Company. Contributions to A-E commenced in February 2013.

Specific information in respect of executive directors' pension entitlements is detailed on page 53.

**Service contracts***Executive directors*

Apart from service contracts (detailed in the Remuneration Policy Table on page 42), no director has had any material interest in any contract with the Company or its subsidiaries.

*Non-executive directors*

Letters of appointment for the Chairman and non-executive directors do not contain fixed term periods; however they 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 Meetings.

## REMUNERATION REPORT

Dates of appointment and notice periods for non-executive directors are set out below:

	Date of appointment	Notice period
<b>Chairman</b>		
John Barton	17 May 2006	12 months
<b>Non-executive directors</b>		
Steve Barber	1 June 2007	1 month
Christine Cross	19 January 2005	1 month
Jonathan Dawson	13 May 2004	1 month
Caroline Goodall	1 January 2013	1 month
Francis Salway	1 June 2010	1 month

### Executive directors' external appointments

Andrew Varley is a non-executive director of LondonMetric Property plc and the Remuneration Committee has approved his retention of the director's fee of £50,000 per annum for this appointment. No other executive director holds any non-executive directorships outside the Group.

### Directors' interests

The Company has a formal share ownership requirement for executive directors, as set out on pages 40 and 41.

Directors' beneficial interests in shares at the beginning of the financial year and at the end of the year were as follows:

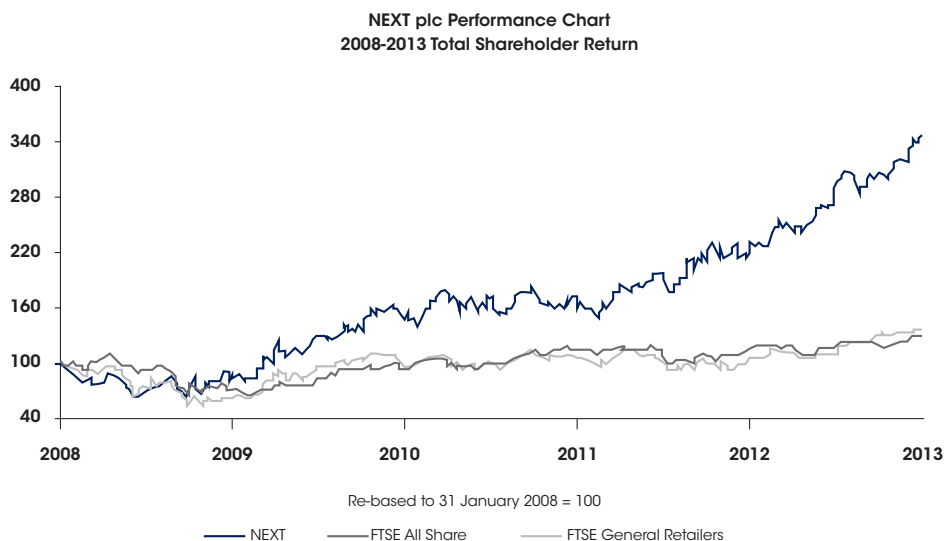
	Ordinary shares of 10p each	
	2013 No. of shares	2012 No. of shares
Lord Wolfson	1,520,505	1,638,010
Christos Angelides	77,171	72,975
Steve Barber	5,000	10,000
John Barton	16,000	16,000
Christine Cross	5,598	5,598
Jonathan Dawson	5,000	5,000
Caroline Goodall	Nil	N/A
David Keens	165,535	151,574
Francis Salway	9,258	9,258
Andrew Varley	69,817	76,460

David Keens has a beneficial holding of £83,000 (2012: £83,000) nominal value of the Company's 2013 5.25% corporate bonds.

There have been no changes to directors' interests in the shares of the Company from the end of the financial year to 19 March 2013. 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.

**Performance graph**

The graph below illustrates the performance of the Company when compared with the FTSE All Share and FTSE General Retailers index. These have been selected to illustrate the Company's total shareholder return performance against a wide UK index and a sector specific index for the five year period ending January 2013.



*Information subject to audit*

Directors' remuneration £'000	Salary/ fee	Annual performance related bonus	Benefits	Salary supplement <sup>1</sup>	Total 2013	Total 2012
<b>Chairman</b>						
John Barton	250	-	-	-	250	250
<b>Executive directors</b>						
Lord Wolfson	714	1,064	45	27	1,850	1,486
Christos Angelides	519	514	33	19	1,085	900
David Keens	477	472	19	72	1,040	916
Andrew Varley	355	351	27	53	786	674
<b>Non-executive directors</b>						
Steve Barber	60	-	-	-	60	60
Christine Cross	50	-	-	-	50	50
Jonathan Dawson	70	-	-	-	70	70
Caroline Goodall	4	-	-	-	4	-
Francis Salway	50	-	-	-	50	50
<b>Total</b>	<b>2,549</b>	<b>2,401</b>	<b>124</b>	<b>171</b>	<b>5,245</b>	<b>4,456</b>
Total 2012	2,495	1,751	115	95	4,456	

<sup>1</sup> Directors received a salary supplement of 15% in lieu of pension provision from April 2011 (Andrew Varley), June 2011 (David Keens) and November 2012 (Lord Wolfson and Christos Angelides).

Lord Wolfson was the highest paid director in the current and previous year; £350,000 of his annual performance-related bonus is payable in NEXT shares (2012: £56,000), deferred for a period of two years and will be forfeited if he voluntarily resigns prior to the end of that period.

The Company paid a pension under the unfunded, unapproved arrangement to a former director of the Company of £36,496 (2012: £35,606).

## REMUNERATION REPORT

### Long term incentive plans

For the three year performance period to July 2012, TSR ranked fifth in the comparator group of 22 and 96% of the grant made in July 2009 vested. Before allowing the award to vest the Remuneration Committee assessed the performance of the Company during the performance period in light of underlying economic and other conditions ('the economic underpin'). The Committee noted that EPS compound growth of 19.7% and pre-tax profit compound growth of 10.4% over the three year period, was well ahead of RPI compound growth of 4.3%. In addition, dividends had grown in line with EPS and £727m had been returned to shareholders through buybacks. The Committee also assessed earnings growth against selected comparable major UK retailers and concluded that NEXT had performed favourably. Taking these factors into account, the Committee determined that the economic underpin performance condition for the July award had been satisfied. Details of the amounts that vested for each executive director are detailed in the table below. The awards were cash settled for all executives except David Keens who received shares.

For the performance period to January 2013, TSR ranked fifth against the comparator group of 22 which corresponds to an expected vesting of 98% of the maximum award made in January 2010. The Remuneration Committee will formally assess the performance of the Company for this period in April on the same basis as the grant made in July 2009 before determining whether the economic underpin performance condition has been satisfied. If the condition is satisfied, the January 2013 award will be settled in April, and based on the share price of £41.10 on 19 March 2013, awards for each executive director for the year are detailed below:

	July 2012		January 2013		Total	Total for 2012	Final value £'000
	Actual no. of shares	Value £'000	Actual no. of shares	Estimated value £'000	Estimated value £'000	Adjustment to estimate £'000	
Lord Wolfson <sup>1</sup>	42,582	1,448	25,596	1,052	2,500	-	2,500
Christos Angelides <sup>1</sup>	37,062	1,260	30,170	1,240	2,500	33	1,673
David Keens	21,291	724	16,796	690	1,414	31	1,602
Andrew Varley	15,849	539	12,487	513	1,052	23	1,193
	<b>116,784</b>	<b>3,971</b>	<b>85,049</b>	<b>3,495</b>	<b>7,466</b>	87	6,968

<sup>1</sup> As noted on page 33, the value of the LTIP awards for Lord Wolfson and Christos Angelides will be restricted in respect of the financial year ended January 2013 to a maximum of £2.5m, as it was for Lord Wolfson in 2012.

Details of directors' interests in long term schemes, comprising the LTIP and deferred bonus shares, are summarised below:

	Date of award	Maximum share potential January 2012 <sup>1</sup>	Shares awarded during the year	Shares vested during the year <sup>3</sup>	Shares lapsed during the year	Maximum share potential January 2013 <sup>1</sup>	Market value on date of award (£)	Market value on date cash equivalent determined (£)	Vesting date
<b>Lord Wolfson</b>									
LTIP	Mar 2009	62,374	-	28,426	33,948 <sup>4</sup>	-	10.93	30.14	Jan 2012
	Sept 2009	44,356	-	42,582	1,774	-	15.37	34.01	Jul 2012
	Mar 2010	34,228	-	-	-	<b>34,228<sup>5</sup></b>	20.13	-	Jan 2013
	Sept 2010	32,592	-	-	-	<b>32,592</b>	21.14	-	Jul 2013
	Mar 2011	33,684	-	-	-	<b>33,684</b>	20.70	-	Jan 2014
	Sept 2011	30,289	-	-	-	<b>30,289</b>	23.02	-	Jul 2014
	Mar 2012	-	26,861	-	-	<b>26,861</b>	26.60	-	Jan 2015
	Sept 2012	-	23,175	-	-	<b>23,175</b>	30.83	-	Jul 2015
Deferred bonus shares <sup>2</sup>	Apr 2010	15,615	-	15,615	-	-	21.83	29.33	Apr 2012
	Apr 2011	17,020	-	-	-	<b>17,020</b>	20.24	-	Apr 2013
	Apr 2012	-	1,902	-	-	<b>1,902</b>	29.33	-	Apr 2014
<b>Total</b>		270,158	51,938	86,623	35,722	<b>199,751</b>			
<b>Christos Angelides</b>									
LTIP	Mar 2009	32,573	-	27,036	5,537	-	10.93	30.14	Jan 2012
	Sept 2009	38,606	-	37,062	1,544	-	15.37	34.01	Jul 2012
	Mar 2010	31,048	-	-	-	<b>31,048<sup>5</sup></b>	20.13	-	Jan 2013
	Sept 2010	29,565	-	-	-	<b>29,565</b>	21.14	-	Jul 2013
	Mar 2011	30,556	-	-	-	<b>30,556</b>	20.70	-	Jan 2014
	Sept 2011	16,486	-	-	-	<b>16,486</b>	23.02	-	Jul 2014
	Mar 2012	-	14,619	-	-	<b>14,619</b>	26.60	-	Jan 2015
	Sept 2012	-	12,614	-	-	<b>12,614</b>	30.83	-	Jul 2015
<b>Total</b>		178,834	27,233	64,098	7,081	<b>134,888</b>			
<b>David Keens</b>									
LTIP	Mar 2009	31,187	-	25,885	5,302	-	10.93	30.14	Jan 2012
	Sept 2009	22,178	-	21,291	887	-	15.37	34.01	Jul 2012
	Mar 2010	17,139	-	-	-	<b>17,139<sup>5</sup></b>	20.13	-	Jan 2013
	Sept 2010	16,320	-	-	-	<b>16,320</b>	21.14	-	Jul 2013
	Mar 2011	16,866	-	-	-	<b>16,866</b>	20.70	-	Jan 2014
	Sept 2011	15,166	-	-	-	<b>15,166</b>	23.02	-	Jul 2014
	Mar 2012	-	13,449	-	-	<b>13,449</b>	26.60	-	Jan 2015
	Sept 2012	-	11,604	-	-	<b>11,604</b>	30.83	-	Jul 2015
<b>Total</b>		118,856	25,053	47,176	6,189	<b>90,544</b>			
<b>Andrew Varley</b>									
LTIP	Mar 2009	23,217	-	19,270	3,947	-	10.93	30.14	Jan 2012
	Sept 2009	16,510	-	15,849	661	-	15.37	34.01	Jul 2012
	Mar 2010	12,742	-	-	-	<b>12,742<sup>5</sup></b>	20.13	-	Jan 2013
	Sept 2010	12,133	-	-	-	<b>12,133</b>	21.14	-	Jul 2013
	Mar 2011	12,536	-	-	-	<b>12,536</b>	20.70	-	Jan 2014
	Sept 2011	11,273	-	-	-	<b>11,273</b>	23.02	-	Jul 2014
	Mar 2012	-	9,995	-	-	<b>9,995</b>	26.60	-	Jan 2015
	Sept 2012	-	8,624	-	-	<b>8,624</b>	30.83	-	Jul 2015
<b>Total</b>		88,411	18,619	35,119	4,608	<b>67,303</b>			

<sup>1</sup> The maximum number of LTIP shares is the award that could be receivable if the TSR performance conditions outlined on pages 38 and 39 are fully met.

<sup>2</sup> Full details of deferred bonus are set out on pages 38 and 49.

<sup>3</sup> See page 50 for details of the performance conditions and vesting levels applicable to the LTIP schemes vesting in the year, including the restriction on the maximum value that could vest.

<sup>4</sup> The maximum value of LTIP awards that vest for a participant in a year is capped at £2.5m. This cap was applied to Lord Wolfson's awards that vested in the year to January 2012. The impact of the cap was to reduce shares vested and increase shares lapsed by 23,344 shares.

<sup>5</sup> See page 50 for details of these awards which are expected to vest in April 2013.

## REMUNERATION REPORT

The LTIP performance periods which mature after January 2013 are not yet complete and no entitlement has yet been earned. A charge of £23,368,000 for the year (2012: £17,159,000) has been made in the accounts in respect of these LTIP grants, of which approximately £9,554,000 (2012: £7,956,000) related to the executive directors.

For all LTIP participants, the total maximum shares receivable at January 2012 was 1,364,175 (January 2011: 1,776,284). During the year, grants over 517,192 shares vested (2012: 615,044), grants over 57,545 shares lapsed (2012: 189,723) and further grants over 295,033 shares were issued (2012: 392,658). At January 2013 the total maximum shares receivable was 1,084,471 (excluding the impact of any cap on the total value which may apply) with an average remaining contractual life of 1.6 years (2012: 1.6 years).

### Share Matching Plan and Sharesave interests

Details of directors' interests in the SMP and Sharesave option scheme are as follows:

	Date of grant	Maximum share potential at January 2012	Options granted during the year	Options exercised during the year	Options waived during the year <sup>2</sup>	Maximum share potential at January 2013 <sup>4</sup>	Option price (£)	Option period
<b>Lord Wolfson</b>								
SMP <sup>1</sup>	Jun 2010	65,190	-	-	65,190	-	Nil	Jun 2013 – Jun 2020
	Apr 2011	67,098	-	-	-	<b>67,098</b>	Nil	Apr 2014 – Apr 2021
Sharesave	Oct 2008	1,826	-	-	-	<b>1,826</b>	9.17	Dec 2013 – Jun 2014
<b>Total</b>		134,114	-	-	65,190	<b>68,924</b>		
<b>Christos Angelides</b>								
SMP <sup>1</sup>	Jun 2010	46,132	-	-	-	<b>46,132</b>	Nil	Jun 2013 – Jun 2020
	Apr 2011	48,690	-	-	-	<b>48,690</b>	Nil	Apr 2014 – Apr 2021
	Apr 2012	-	8,392	-	-	<b>8,392</b>	Nil	Apr 2015 – Apr 2022
Sharesave	Oct 2011	431	-	-	-	<b>431</b>	20.84	Dec 2014 – Jun 2015
<b>Total</b>		95,253	8,392	-	-	<b>103,645</b>		
<b>David Keens</b>								
SMP <sup>1</sup>	Jun 2010	44,796	-	-	-	<b>44,796</b>	Nil	Jun 2013 – Jun 2020
	Apr 2011	44,796	-	-	-	<b>44,796</b>	Nil	Apr 2014 – Apr 2021
	Apr 2012	-	6,714	-	-	<b>6,714</b>	Nil	Apr 2015 – Apr 2022
Sharesave	Oct 2008	385	-	385 <sup>3</sup>	-	-	9.17	Dec 2011 – Jun 2012
	Oct 2010	319	-	-	-	<b>319</b>	17.82	Dec 2013 – Jun 2014
	Oct 2011	158	-	-	-	<b>158</b>	20.84	Dec 2014 – Jun 2015
<b>Total</b>		90,454	6,714	385	-	<b>96,783</b>		
<b>Andrew Varley</b>								
SMP <sup>1</sup>	Jun 2010	32,204	-	-	-	<b>32,204</b>	Nil	Jun 2013 – Jun 2020
	Apr 2011	33,306	-	-	-	<b>33,306</b>	Nil	Apr 2014 – Apr 2021
	Apr 2012	-	6,714	-	-	<b>6,714</b>	Nil	Apr 2015 – Apr 2022
Sharesave	Oct 2011	431	-	-	-	<b>431</b>	20.84	Dec 2014 – Jun 2015
<b>Total</b>		65,941	6,714	-	-	<b>72,655</b>		

<sup>1</sup> The performance criteria attached to the SMP are described on page 45.

<sup>2</sup> As disclosed on page 34, Lord Wolfson has waived his potential entitlement to the 2010 SMP grant.

<sup>3</sup> The market price of shares at the date of exercise was £26.25 for David Keens, equal to a gain of £6,576.

<sup>4</sup> The market price for the shares at the end of the financial year was £40.59, the lowest and highest share price during the financial year was £26.19 and £40.59 respectively.

Save for the waiver of Lord Wolfson's 2010 SMP entitlement, there have been no other changes to awards under the SMP or Sharesave during the year.

**Directors' pension entitlements**

The Policy Table on page 40 details the pension entitlements of the executive directors who held office during the year. In summary, these are as follows:

	Age at January 2013	Years of pensionable service	Accrued annual pension £'000	Change in accrued annual pension £'000	Change in accrued annual pension (net of inflation) £'000	Transfer value of accrued annual pension		Increase in transfer value less director's contributions £'000
						2013 £'000	2012 £'000	
Lord Wolfson	45	18	308	20	14	4,333	3,911	386
Christos Angelides	49	20	272	16	11	4,802	4,336	440
David Keens	59	25	182	4	-	5,696	4,914	782
Andrew Varley	62	24	74	2	-	2,154	2,135	19

Years of pensionable service shown above may include bought-in service from the transfer of other pension entitlements into the Plan. Directors' pension arrangements are subject to the same actuarial reduction as other employees on termination or early retirement.

On behalf of the Board

**Jonathan Dawson**

Chairman of the Remuneration Committee

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEXT PLC

We have audited the financial statements of NEXT plc for the year ended 26 January 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements, Accounting Policies and the related Notes 1 to 32 and C1 to C7. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 26 January 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 32, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Nigel Meredith (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham  
21 March 2013

Notes:

1. The maintenance and integrity of the Next plc website 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 website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



## CONSOLIDATED INCOME STATEMENT

For the financial year ended 26 January

	Notes	2013			2012		
		Underlying £m	Exceptional items (Note 6) £m	Total £m	Underlying £m	Exceptional items (Note 6) £m	Total £m
<b>Continuing operations</b>							
Revenue	1, 2	3,547.8	15.0	3,562.8	3,441.1	-	3,441.1
Cost of sales		(2,431.1)	(5.9)	(2,437.0)	(2,395.8)	-	(2,395.8)
<b>Gross profit</b>		<b>1,116.7</b>	<b>9.1</b>	<b>1,125.8</b>	1,045.3	-	1,045.3
Distribution costs		(269.5)	-	(269.5)	(245.7)	-	(245.7)
Administration expenses		(201.0)	-	(201.0)	(201.3)	-	(201.3)
Other gains/(losses)	3	3.4	35.8	39.2	(1.1)	3.1	2.0
<b>Trading profit</b>		<b>649.6</b>	<b>44.9</b>	<b>694.5</b>	597.2	3.1	600.3
Share of results of associates		0.6	-	0.6	1.5	-	1.5
<b>Operating profit</b>	3	<b>650.2</b>	<b>44.9</b>	<b>695.1</b>	598.7	3.1	601.8
Finance income	5	0.4	-	0.4	0.5	6.1	6.6
Finance costs	5	(29.0)	-	(29.0)	(28.9)	-	(28.9)
<b>Profit before taxation</b>		<b>621.6</b>	<b>44.9</b>	<b>666.5</b>	570.3	9.2	579.5
Taxation	7	(148.5)	(9.4)	(157.9)	(142.9)	(2.4)	(145.3)
<b>Profit from continuing operations</b>		<b>473.1</b>	<b>35.5</b>	<b>508.6</b>	427.4	6.8	434.2
Profit from discontinued operations		-	-	-	2.6	38.0	40.6
<b>Profit for the year</b>		<b>473.1</b>	<b>35.5</b>	<b>508.6</b>	430.0	44.8	474.8
<b>Profit for the year attributable to:</b>							
Equity holders of the parent company		473.2	35.5	508.7	430.1	44.8	474.9
Non-controlling interest		(0.1)	-	(0.1)	(0.1)	-	(0.1)
<b>Profit for the year</b>		<b>473.1</b>	<b>35.5</b>	<b>508.6</b>	430.0	44.8	474.8

		2013		2012	
		Underlying	Total	Underlying	Total
<b>Basic earnings per share</b>	9				
Continuing operations		297.7p	320.1p	253.9p	257.9p
Discontinued operations		-	-	1.5p	24.1p
<b>Total</b>		<b>297.7p</b>	<b>320.1p</b>	255.4p	282.0p
<b>Diluted earnings per share</b>	9				
Continuing operations		289.9p	311.7p	247.6p	251.6p
Discontinued operations		-	-	1.5p	23.5p
<b>Total</b>		<b>289.9p</b>	<b>311.7p</b>	249.1p	275.1p

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 26 January

	Notes	2013 £m	2012 £m
<b>Profit for the year</b>		<b>508.6</b>	474.8
<i>Other comprehensive income and expenses</i>			
Exchange differences on translation of foreign operations		-	(2.0)
Gains on cash flow hedges		1.6	15.6
Actuarial losses on defined benefit pension scheme	21	(19.7)	(28.5)
Tax relating to components of other comprehensive income	7	6.9	4.5
		<b>(11.2)</b>	(10.4)
<i>Reclassification adjustments</i>			
Transferred to income statement on cash flow hedges	3	(4.5)	5.0
Transferred to the carrying amount of hedged items on cash flow hedges		(0.3)	(5.9)
Exchange gains transferred to income statement on disposal of subsidiary		-	(0.6)
		<b>(4.8)</b>	(1.5)
Other comprehensive expense for the year		<b>(16.0)</b>	(11.9)
<b>Total comprehensive income for the year</b>		<b>492.6</b>	462.9
<b>Attributable to:</b>			
Equity holders of the parent company		<b>492.7</b>	463.0
Non-controlling interest		<b>(0.1)</b>	(0.1)
<b>Total comprehensive income for the year</b>		<b>492.6</b>	462.9

## CONSOLIDATED BALANCE SHEET

As at 26 January

	Notes	2013 £m	2012 £m
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant & equipment	10	537.3	581.9
Intangible assets	11	44.8	45.6
Interests in associates and other investments	12	7.2	7.1
Defined benefit pension surplus	21	65.6	35.1
Other financial assets	15	30.9	44.6
		685.8	714.3
<b>Current assets</b>			
Inventories	13	331.8	371.9
Customer and other receivables	14	718.1	699.1
Other financial assets	15	21.6	12.5
Cash and short term deposits	16	136.3	56.4
		1,207.8	1,139.9
<b>Total assets</b>		<b>1,893.6</b>	<b>1,854.2</b>
<b>Current liabilities</b>			
Bank loans and overdrafts	17	(5.4)	(7.6)
Corporate bonds	20	(87.6)	-
Trade payables and other liabilities	18	(537.2)	(545.0)
Other financial liabilities	19	(87.5)	(87.0)
Current tax liabilities		(98.3)	(102.8)
		(816.0)	(742.4)
<b>Non-current liabilities</b>			
Corporate bonds	20	(566.8)	(652.1)
Provisions	22	(11.2)	(12.0)
Deferred tax liabilities	7	(4.0)	(15.4)
Other financial liabilities	19	-	(4.4)
Other liabilities	18	(210.0)	(205.2)
		(792.0)	(889.1)
<b>Total liabilities</b>		<b>(1,608.0)</b>	<b>(1,631.5)</b>
<b>NET ASSETS</b>		<b>285.6</b>	<b>222.7</b>
<b>TOTAL EQUITY</b>		<b>285.6</b>	<b>222.7</b>

Governance

Consolidated accounts

Parent Company accounts

Additional information

Approved by the Board on 21 March 2013

**Lord Wolfson of Aspley Guise**  
Director

**David Keens**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 26 January

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Fair value reserve £m	Foreign currency translation £m	Other reserves £m	Retained earnings £m	Share holders' equity £m	Non-control-ling interest £m	Total equity £m
<b>At January 2011</b>	<b>18.1</b>	<b>0.8</b>	<b>11.8</b>	<b>(138.6)</b>	<b>(3.2)</b>	<b>4.6</b>	<b>(1,443.8)</b>	<b>1,782.6</b>	<b>232.3</b>	<b>0.1</b>	<b>232.4</b>
Profit for the year	-	-	-	-	-	-	-	474.9	<b>474.9</b>	(0.1)	<b>474.8</b>
Other comprehensive income/(expense) for the year	-	-	-	-	14.7	(2.6)	-	(24.0)	<b>(11.9)</b>	-	<b>(11.9)</b>
Total comprehensive income for the year	-	-	-	-	14.7	(2.6)	-	450.9	<b>463.0</b>	(0.1)	<b>462.9</b>
Share buybacks & commitments (Note 23)	(1.2)	-	1.2	-	-	-	-	(323.0)	<b>(323.0)</b>	-	<b>(323.0)</b>
ESOT share purchases & commitments (Note 26)	-	-	-	(112.3)	-	-	-	-	<b>(112.3)</b>	-	<b>(112.3)</b>
Shares issued by ESOT	-	-	-	109.8	-	-	-	(42.2)	<b>67.6</b>	-	<b>67.6</b>
Share option charge	-	-	-	-	-	-	-	17.9	<b>17.9</b>	-	<b>17.9</b>
Tax recognised directly in equity	-	-	-	-	-	-	-	12.3	<b>12.3</b>	-	<b>12.3</b>
Equity dividends paid	-	-	-	-	-	-	-	(135.1)	<b>(135.1)</b>	-	<b>(135.1)</b>
<b>At January 2012</b>	<b>16.9</b>	<b>0.8</b>	<b>13.0</b>	<b>(141.1)</b>	<b>11.5</b>	<b>2.0</b>	<b>(1,443.8)</b>	<b>1,763.4</b>	<b>222.7</b>	<b>-</b>	<b>222.7</b>
Profit for the year	-	-	-	-	-	-	-	508.7	<b>508.7</b>	(0.1)	<b>508.6</b>
Other comprehensive expense for the year	-	-	-	-	(3.2)	-	-	(12.8)	<b>(16.0)</b>	-	<b>(16.0)</b>
Total comprehensive income for the year	-	-	-	-	(3.2)	-	-	495.9	<b>492.7</b>	(0.1)	<b>492.6</b>
Shares issued	-	0.1	-	-	-	-	-	-	<b>0.1</b>	-	<b>0.1</b>
Share buybacks & commitments (Note 23)	(0.8)	-	0.8	-	-	-	-	(220.0)	<b>(220.0)</b>	-	<b>(220.0)</b>
ESOT share purchases & commitments (Note 26)	-	-	-	(143.5)	-	-	-	-	<b>(143.5)</b>	-	<b>(143.5)</b>
Shares issued by ESOT	-	-	-	69.0	-	-	-	(24.7)	<b>44.3</b>	-	<b>44.3</b>
Share option charge	-	-	-	-	-	-	-	17.8	<b>17.8</b>	-	<b>17.8</b>
Tax recognised directly in equity	-	-	-	-	-	-	-	19.3	<b>19.3</b>	-	<b>19.3</b>
Equity dividends paid	-	-	-	-	-	-	-	(147.7)	<b>(147.7)</b>	-	<b>(147.7)</b>
<b>At January 2013</b>	<b>16.1</b>	<b>0.9</b>	<b>13.8</b>	<b>(215.6)</b>	<b>8.3</b>	<b>2.0</b>	<b>(1,443.8)</b>	<b>1,904.0</b>	<b>285.7</b>	<b>(0.1)</b>	<b>285.6</b>

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 26 January

	2013 £m	2012 £m	
<i>Cash flows from operating activities</i>			
Operating profit – continuing operations	<b>695.1</b>	601.8	Governance
Operating profit – discontinued operations	-	2.9	
Depreciation and amortisation	<b>117.2</b>	119.7	Consolidated accounts
Impairment	<b>1.8</b>	1.4	
Loss on disposal of property, plant & equipment	<b>2.5</b>	4.5	Parent Company accounts
Share option charge	<b>17.8</b>	16.8	
Share of undistributed profit of associates	<b>(0.1)</b>	(1.0)	Additional information
Exchange movement	<b>(3.2)</b>	(0.7)	
Decrease/(increase) in inventories	<b>40.1</b>	(3.6)	
Increase in customer and other receivables	<b>(21.7)</b>	(93.8)	
Increase in trade and other payables	<b>7.4</b>	28.2	
Pension contributions less income statement charge	<b>(50.2)</b>	(6.4)	
Cash generated from operations	<b>806.7</b>	669.8	
Corporation taxes paid	<b>(147.7)</b>	(143.9)	
<b>Net cash from operating activities</b>	<b>659.0</b>	525.9	
<i>Cash flows from investing activities</i>			
Additions to property, plant and equipment	<b>(81.6)</b>	(126.1)	Parent Company accounts
Decrease in capital accruals	<b>(10.8)</b>	(9.0)	
Payments to acquire property, plant and equipment	<b>(92.4)</b>	(135.1)	Additional information
Net proceeds from disposal of subsidiary (Note 6)	<b>1.5</b>	63.0	
Proceeds from sale of property, plant and equipment	<b>5.3</b>	1.9	
Payment of deferred consideration	<b>(0.1)</b>	-	
<b>Net cash from investing activities</b>	<b>(85.7)</b>	(70.2)	
<i>Cash flows from financing activities</i>			
Repurchase of own shares	<b>(241.9)</b>	(291.1)	Additional information
Purchase of shares by ESOT	<b>(123.0)</b>	(106.7)	
Proceeds from disposal of shares by ESOT	<b>43.4</b>	67.6	
Repayment of unsecured bank loans	-	(115.0)	
Net proceeds from bond issue and tender	-	153.3	
Interest paid	<b>(23.8)</b>	(23.9)	
Interest received	<b>2.0</b>	5.0	
Payment of finance lease liabilities	<b>(0.1)</b>	(0.2)	
Dividends paid	<b>(147.7)</b>	(135.1)	
<b>Net cash from financing activities</b>	<b>(491.1)</b>	(446.1)	
Net increase in cash and cash equivalents	<b>82.2</b>	9.6	
Opening cash and cash equivalents	<b>48.8</b>	39.1	
Effect of exchange rate fluctuations on cash held	<b>(0.1)</b>	0.1	
<b>Closing cash and cash equivalents (Note 31)</b>	<b>130.9</b>	48.8	

In the prior year, net cash from operating activities included £9.9m of outflow in respect of discontinued operations (Ventura) during the period prior to disposal.

## 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 2006. 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 financial statements are for the 52 weeks to 26 January 2013 (last year 52 weeks to 28 January 2012).

There have been no changes in accounting policies this year or last year and the principal policies adopted are set out below.

### 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 any subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. The results and net assets of associated undertakings are incorporated into these financial statements using the equity method of accounting.

### Foreign currencies

The consolidated financial statements are presented in pounds Sterling, which is the Company's functional and presentation currency. The Group includes foreign entities whose functional currencies are not Sterling. On consolidation, the assets and liabilities of those entities are translated at the exchange rates at the balance sheet date and income and expenses are translated at weighted average rates during the period. Translation differences are recognised in equity.

Transactions in currencies other than an entity's functional currency are recorded at the exchange rate on the transaction date, whilst assets and liabilities are translated at exchange rates at the balance sheet date. Exchange differences are recognised in the income statement.

### Revenue

Revenue represents the fair value of amounts receivable for goods and services and is stated net of sales taxes and returns. Sales of goods are recognised on delivery. Directory service charge income is accrued on a time basis by reference to the principal outstanding and the effective interest rate. Revenue from the sale of gift cards is deferred until their redemption.

### Underlying profit and exceptional items

Exceptional items are significant items of an unusual or non-recurring nature which are shown separately in the income statement to provide a clearer understanding of the underlying financial performance during the year. Further details are given in Note 6.

### Property, plant & equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Depreciation is charged so as to write down the cost of assets to their estimated residual values over their remaining useful lives on a straight line basis. Estimated useful lives and residual values are reviewed at least annually and are summarised as follows:

Freehold and long leasehold property	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 useful life if shorter

**Goodwill**

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group’s interest in the assets and liabilities recognised. Goodwill is not amortised, but is reviewed for impairment annually or whenever there is an indication of impairment.

**Other intangible assets**

Separately identifiable intangible assets obtained in a business acquisition are initially recognised at fair value, if this can be measured reliably and the asset arises from contractual or other legal rights. Other intangible assets are amortised on a straight line basis over their expected useful lives as follows:

Lipsy brand names and trademarks	10 years
Lipsy customer relationships	4 years

Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable.

**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 non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any impairment loss arises, the asset value is adjusted to its estimated recoverable amount and the difference is recognised in the income statement.

**Pension scheme**

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, pension benefits to certain plan members.

The cost of providing benefits under the defined benefit and unfunded arrangements are determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net defined benefit pension asset or liability represents the fair value of the defined benefit plan assets less the present value of the defined benefit and unfunded liabilities. A net pension asset is only recognised to the extent that it is expected to be recoverable in the future.

Actuarial gains and losses are recognised in the statement of comprehensive income in full in the period in which they occur. Other income and expenses are recognised in the income statement.

The cost of the defined contribution section is recognised in the income statement as incurred.

**Inventories**

Inventories (stocks) are 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.

**Directory and other receivables**

Directory customer receivables represent outstanding customer balances less any allowance for impairment which is based on objective evidence and recent default experience by customer account category. Other trade receivables are stated at invoice value less any allowance for impairment.

**Cash and cash equivalents**

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. Short term deposits are those with an original maturity of three months or less.

## ACCOUNTING POLICIES

### Corporate bonds and bank borrowings

Corporate bonds and bank borrowings are recognised at the net proceeds received and subsequently adjusted where hedge accounting applies (see interest rate derivatives below). Accrued interest is included within other creditors and accruals.

### Share-based payments

The fair value of employee share options is calculated when they are granted using a Black-Scholes model. The resulting cost is charged in the income statement over the vesting period of the option, and is regularly reviewed and 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 cost is recognised in the income statement over the vesting period.

### Taxation

Taxation, comprised of current and deferred tax, is charged or credited to the income statement unless it relates to items in other comprehensive income or directly in equity. In such cases, the related tax is also recognised in other comprehensive income or directly in equity.

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 is accounted for using the balance sheet liability method and is calculated using rates of taxation enacted or substantively enacted at the balance sheet date which are expected to apply when the asset or liability is settled.

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. Deferred tax is not recognised in respect of investments in subsidiaries and associates where the reversal of any taxable temporary differences can be controlled and are unlikely to reverse in the foreseeable future.

### Other financial assets and liabilities: derivative financial instruments and hedge accounting

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. Foreign currency and interest rate derivatives are stated at their fair value, being the estimated amount that the Group would receive or pay to terminate them at the balance sheet date based on prevailing foreign currency and interest rates.

#### *Foreign currency derivatives*

Changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in equity in the fair value reserve, and subsequently transferred to the carrying amount of the hedged item or the income statement. Realised gains or losses on cash flow hedges are therefore recognised in the income statement in the same period as the hedged item.

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 foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS 39 are recognised in the income statement.



*Interest rate derivatives*

The Group uses interest rate derivatives to hedge part of the interest rate risk associated with the Company's corporate bonds. The carrying values of the relevant bonds are adjusted only for changes in fair value attributable to the interest rate risk being hedged. The adjustment is recognised in the income statement and is offset by movements in the fair value of the derivatives.

Changes in the fair value of interest rate derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS 39 are recognised in the income statement.

**Share buybacks**

The Group has regularly returned surplus cash to shareholders through share buybacks. Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable. The Company also uses contingent share purchase contracts and irrevocable closed period buyback programmes. The obligation to purchase shares is recognised in full at the inception of the contract, even when that obligation is conditional on the share price. Any subsequent reduction in the obligation caused by the expiry or termination of a contract is credited back to equity at that time.

**Shares held by ESOT**

The NEXT Employee Share Ownership Trust ("ESOT") provides for the issue of shares to Group employees, principally under share option schemes. Shares in the Company held by the ESOT are included in the balance sheet at cost as a deduction from equity. The ESOT may also use contingent share purchase contracts and irrevocable closed period share purchase programmes which are accounted for as described above.

**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**

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.

The Group does not have significant finance leases.

**Significant areas of estimation and judgement**

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 Directory customer receivables (Note 14), estimated selling prices applied in determining the net realisable values of inventories (Note 13 and inventories policy above) and the actuarial assumptions applied in calculating the net retirement benefit obligation (Note 21). The Audit Committee section of the Corporate Governance Report (page 29) contains further information on the judgmental areas considered by the Committee during the year.

**Future changes to accounting standards**

An amendment to IAS 19 *Employee Benefits* was published in June 2011 and will first apply to the Group next year. It is not expected to have a significant impact.

Various other new accounting standards and amendments were issued during the year, none of which have had or are expected to have any significant impact on the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Segmental analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reviewed by the Board. The performance of operating segments is assessed on profits before interest and tax, excluding equity settled share option charges recognised under IFRS 2 *Share-Based Payment* and unrealised foreign exchange gains or losses on derivatives which do not qualify for hedge accounting. The activities, products and services of the operating segments are detailed in the Directors' Report on page 3. The Property Management segment holds properties and property leases which are sub-let to other segments and external parties.

	External revenue		Internal revenue		Total revenue	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
NEXT Retail	2,190.9	2,191.4	6.0	6.7	2,196.9	2,198.1
NEXT Directory	1,192.6	1,088.7	3.7	-	1,196.3	1,088.7
NEXT International Retail	77.7	76.3	-	-	77.7	76.3
NEXT Sourcing	8.8	7.5	498.3	511.5	507.1	519.0
	<b>3,470.0</b>	<b>3,363.9</b>	<b>508.0</b>	<b>518.2</b>	<b>3,978.0</b>	<b>3,882.1</b>
Lipsy	58.1	54.9	0.5	3.5	58.6	58.4
Property Management	20.3	6.2	192.0	188.8	212.3	195.0
Total segment revenues	<b>3,548.4</b>	<b>3,425.0</b>	<b>700.5</b>	<b>710.5</b>	<b>4,248.9</b>	<b>4,135.5</b>
Third party distribution	14.4	16.1	-	-	14.4	16.1
Eliminations	-	-	(700.5)	(710.5)	(700.5)	(710.5)
<b>Continuing operations</b>	<b>3,562.8</b>	<b>3,441.1</b>	<b>-</b>	<b>-</b>	<b>3,562.8</b>	<b>3,441.1</b>
Discontinued (Ventura)	-	64.8	-	2.0	-	66.8

Segment profit	2013			2012		
	Underlying £m	Exceptional items (Note 6) £m	Total £m	Underlying £m	Exceptional items (Note 6) £m	Total £m
NEXT Retail	331.1	-	331.1	323.7	-	323.7
NEXT Directory	302.1	-	302.1	262.6	-	262.6
NEXT International Retail	8.4	-	8.4	7.9	-	7.9
NEXT Sourcing	30.8	-	30.8	21.1	-	21.1
	<b>672.4</b>	<b>-</b>	<b>672.4</b>	<b>615.3</b>	<b>-</b>	<b>615.3</b>
Lipsy	2.0	-	2.0	1.3	-	1.3
Property Management	3.5	9.1	12.6	5.6	-	5.6
<b>Total segment profit</b>	<b>677.9</b>	<b>9.1</b>	<b>687.0</b>	<b>622.2</b>	<b>-</b>	<b>622.2</b>
Central costs and other	(13.9)	35.8	21.9	(7.1)	3.1	(4.0)
Share option charge	(17.8)	-	(17.8)	(16.8)	-	(16.8)
Unrealised foreign exchange	3.4	-	3.4	(1.1)	-	(1.1)
<b>Trading profit</b>	<b>649.6</b>	<b>44.9</b>	<b>694.5</b>	<b>597.2</b>	<b>3.1</b>	<b>600.3</b>
Share of results of associates	0.6	-	0.6	1.5	-	1.5
Finance income	0.4	-	0.4	0.5	6.1	6.6
Finance costs	(29.0)	-	(29.0)	(28.9)	-	(28.9)
<b>Profit before tax - continuing operations</b>	<b>621.6</b>	<b>44.9</b>	<b>666.5</b>	<b>570.3</b>	<b>9.2</b>	<b>579.5</b>
Profit before tax - discontinued (Ventura)	-	-	-	2.9	38.0	40.9

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

## 1. Segmental analysis (continued)

	Property, plant & equipment		Capital expenditure		Depreciation	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
NEXT Retail	374.1	407.2	73.2	105.4	101.4	100.8
NEXT Directory	84.5	88.8	6.7	16.3	10.9	12.1
NEXT International Retail	1.1	1.7	-	0.4	0.5	0.7
NEXT Sourcing	2.6	3.4	0.6	0.7	1.0	1.3
Lipsy	6.8	8.9	0.8	2.9	2.3	2.1
Property Management	68.0	71.8	0.2	-	0.2	0.2
Ventura (discontinued)	-	-	-	0.3	-	1.4
Other	0.2	0.1	0.1	0.1	0.1	0.2
<b>Total</b>	<b>537.3</b>	<b>581.9</b>	<b>81.6</b>	<b>126.1</b>	<b>116.4</b>	<b>118.8</b>

Analyses of the Group's external revenues (by customer location) and non-current assets (excluding investments, the defined benefit pension surplus, other financial assets and deferred tax assets) by geographical location are detailed below:

External revenue by geographical location	2013	2012	2012
	Continuing £m	Continuing £m	Discontinued £m
United Kingdom	3,319.3	3,245.7	63.7
Rest of Europe	171.1	148.1	-
Middle East	34.2	28.0	-
Asia	13.9	11.2	-
Rest of World	24.3	8.1	1.1
	<b>3,562.8</b>	<b>3,441.1</b>	<b>64.8</b>

Non-current assets by geographical location	2013	2012
	£m	£m
United Kingdom	537.9	579.6
Rest of Europe	12.0	15.0
Middle East	4.5	4.6
Asia	27.6	28.2
Rest of World	0.1	0.1
	<b>582.1</b>	<b>627.5</b>

There were no discontinued operations in the current year (last year: Ventura).

## 2. Revenue by type

	2013	2012	2012
	Continuing £m	Continuing £m	Discontinued £m
Sale of goods	3,376.6	3,281.6	-
Rendering of services	154.8	143.9	64.8
Rental income	5.3	6.2	-
Royalties	11.1	9.4	-
Sale of property development stock (exceptional item, see Note 6)	15.0	-	-
<b>Revenue</b>	<b>3,562.8</b>	<b>3,441.1</b>	<b>64.8</b>

Rendering of services includes £140.4m (2012: £126.1m) of service charge on Directory customer receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**3. Operating profit**

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

	2013 £m	2012 £m
Depreciation on tangible assets:		
Owned	116.3	118.6
Leased	0.1	0.2
Loss on disposal of property, plant & equipment	2.5	4.5
Amortisation of intangible assets	0.8	0.9
Impairment charges:		
Tangible assets	1.8	1.4
Operating lease rentals:		
Minimum lease payments (net of amortisation of incentives)	195.5	194.3
Contingent rentals payable	6.8	7.8
Net foreign exchange gains	3.4	1.1
Cost of inventories recognised as an expense	1,352.2	1,319.2
Write down of inventories to net realisable value	75.1	79.4
Trade receivables:		
Impairment charge	28.3	29.9
Amounts recovered	(4.7)	(3.3)
	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<i>Auditors' remuneration</i>		
Audit of the financial statements	181	189
Audit of subsidiaries	267	265
Total audit fees	448	454
Other services:		
Tax compliance	7	29
Tax advisory services	2	28
Corporate finance	-	25
Other assurance services	18	22
	<b>475</b>	<b>558</b>

Gains and losses on cash flow hedges removed from equity and included in the income statement for the period comprise gains of £4.5m (2012: losses of £5.0m) included in cost of sales.

Other gains/(losses) reported in the income statement represent changes in the fair value of foreign exchange derivative contracts which do not qualify for hedge accounting under IAS 39 and the exceptional pension items and prior year exceptional VAT credit explained in Note 6.

#### 4. Staff costs and key management personnel

Total staff costs were as follows:

	2013 £m	2012 £m
Wages and salaries	510.1	536.9
Social security costs	32.7	37.2
Other pension costs (including £35.8m net exceptional gains)	(25.2)	6.1
	<b>517.6</b>	580.2
Share-based payments expense – equity settled	17.8	17.9
Share-based payments expense – cash settled	23.4	17.9
	<b>558.8</b>	616.0

Equity settled share-based payments comprise management options, sharesave options and potential awards under the Share Matching Plan, details of which are given in Note 25. In the prior year, the equity settled share-based payments expense included a £1.1m accelerated charge for Ventura employee share options which arose on its disposal. Cash settled share-based payments relate to the Long Term Incentive Plan ("LTIP"), details of which are given in the Remuneration Report on pages 38 to 39 and 50 to 51.

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

	2013 £m	2012 £m
NEXT Retail and Directory	540.0	516.6
NEXT International Retail	3.2	3.4
NEXT Sourcing	23.6	24.2
Other activities	27.8	20.1
Exceptional pension credit (see Note 6)	(35.8)	-
Continuing operations	558.8	564.3
Ventura (discontinued)	-	51.7
	<b>558.8</b>	616.0

	Average employees		Full-time equivalents	
	2013 Number	2012 Number	2013 Number	2012 Number
NEXT Retail and Directory	50,707	48,141	24,710	24,531
NEXT International Retail	277	303	217	234
NEXT Sourcing	3,148	3,642	3,148	3,642
Other activities	375	483	226	278
Continuing operations	54,507	52,569	28,301	28,685
Ventura (discontinued)	-	3,735	-	3,478
	<b>54,507</b>	56,304	<b>28,301</b>	32,163

Aggregate compensation for key management personnel (including employer's National Insurance contributions), being the directors of NEXT plc, was as follows:

	2013 £m	2012 £m
Short term employee benefits	6.0	5.0
Post-employment benefits	0.3	0.4
Share-based payments	13.2	10.5
	<b>19.5</b>	15.9

Directors' remuneration is detailed in the Remuneration Report on pages 49 to 53.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. Finance income and costs

	2013 £m	2012 £m
Interest on bank deposits	0.3	0.3
Other interest receivable	0.1	6.3
<b>Total finance income</b>	<b>0.4</b>	<b>6.6</b>
Interest on bonds and other borrowings	24.4	25.2
Premium paid on repurchase of corporate bonds	-	8.2
Swap hedging gain on bond repurchases	-	(7.3)
Other fair value movements	4.6	2.8
<b>Total finance costs</b>	<b>29.0</b>	<b>28.9</b>

Directory service charge is presented as a component of revenue. In the prior year, other interest receivable included statutory interest of £6.1m on an exceptional VAT recovery (see Note 6).

## 6. Exceptional items

	Footnote	2013 £m	2012 £m
<b>Continuing operations</b>			
Pension credit	(a)	42.1	-
Pension charge	(b)	(6.3)	-
Sale of property development stock	(c)	9.1	-
Prior year VAT recovery	(d)	-	9.2
		<b>44.9</b>	<b>9.2</b>
Associated tax charge		(9.4)	(2.4)
		<b>35.5</b>	<b>6.8</b>
<b>Discontinued operations</b>			
Profit on sale of Ventura	(e)	-	38.0

- (a) During the year the Group reviewed the operation of the defined benefit section of its pension plan, which was closed to new members in 2000. From November 2012, the future accrual of benefits for remaining employee members is based on pensionable earnings at that time, rather than final earnings. This change gave rise to a one-off accounting gain of £42.1m.
- (b) In June 2012 a second tranche of pensions in payment were subject to a buy-in arrangement. The Plan paid £23.4m to an insurance company and in return will receive payments equal to those pensions. This eliminates the Plan's exposure to the interest, inflation and longevity risks of those pensions. The contract also allows for the buy-in to be converted to a buy-out, following which the insurance company would become directly responsible for those pensions, and steps are being taken to proceed on this basis. Accordingly, the transaction has been accounted for as a settlement, with the £6.3m accounting charge presented in the income statement as an exceptional item.
- (c) During the year the Group sold its last remaining stock from its property development activities for £15.0m which had a book value of £5.9m. The £9.1m gain is presented as an exceptional item because of its size and non-recurring nature.
- (d) Last year, the Group reached agreement with HM Revenue & Customs for the recovery of overpaid VAT on product sales made during the period from 1973 to 1988. The total amount recoverable was £9.2m, comprising £3.1m of VAT and interest of £6.1m.
- (e) The Group sold its customer services management business, Ventura, which resulted in an exceptional gain of £38.0m last year. Net cash proceeds of £63.0m were received on completion and the final balance of £1.5m was received in the current year.

## 7. Taxation

	2013 £m	2012 £m
<i>Current tax:</i>		
UK corporation tax on profits of the year	159.3	160.1
Adjustments in respect of previous years	(8.1)	(12.6)
	<b>151.2</b>	147.5
<i>Overseas tax:</i>		
On profits of the year	2.8	2.7
Adjustments in respect of previous years	(0.1)	-
Total current tax	<b>153.9</b>	150.2
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(0.1)	(7.8)
Adjustments in respect of previous years	4.1	3.2
Tax expense reported in the consolidated income statement	<b>157.9</b>	145.6
<i>Allocated to:</i>		
Continuing operations	<b>157.9</b>	145.3
Discontinued operations	-	0.3
	<b>157.9</b>	145.6

£9.4m (2012: £2.4m) of the total tax charge relates to exceptional items (see Note 6). Adjustments in respect of previous years relate to release of provisions for items subsequently agreed with HM Revenue & Customs and overseas tax authorities.

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

	2013 %	2012 %
UK corporation tax rate	24.3	26.3
Non-deductible expenses/(non-taxable income)	1.0	(0.5)
Deferred tax not previously recognised: property development losses	(0.2)	-
Overseas tax differentials	(0.7)	(0.5)
Tax over-provided in previous years	(0.6)	(1.5)
Deferred tax rate change	(0.1)	(0.3)
Effective total tax rate on profit before taxation	<b>23.7</b>	23.5

The effective tax rate stated above is based on total profit including exceptional items and discontinued operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. Taxation (continued)

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

	2013 £m	2012 £m
<i>Current tax:</i>		
Pension benefit obligation	(2.7)	-
<i>Deferred tax:</i>		
Pension benefit obligation	(3.2)	(8.3)
Fair value movements on derivative instruments	(1.0)	3.8
Tax credit in the statement of comprehensive income	(6.9)	(4.5)

	2013 £m	2012 £m
<i>Current tax:</i>		
Share-based payments	(8.1)	(12.3)
<i>Deferred tax:</i>		
Share-based payments	(11.2)	-
Tax credit in the statement of changes in equity	(19.3)	(12.3)

<b>Deferred taxation</b>	<b>2013 £m</b>	<b>2012 £m</b>
Accelerated capital allowances	17.5	22.9
Revaluation of derivatives to fair value	2.3	2.4
Pension benefit obligations	15.1	8.8
Share-based payments	(28.0)	(15.8)
Other temporary differences	(2.9)	(2.9)
	<b>4.0</b>	<b>15.4</b>

The deferred tax movement in the year is as follows:

	2013 £m	2012 £m
At January 2012	15.4	23.4
Charged to the income statement:		
Accelerated capital allowances	(5.4)	(5.8)
Revaluation of derivatives to fair value	0.9	(0.3)
Pension benefit obligations	9.5	2.0
Share-based payments	(1.0)	(2.2)
Other temporary differences	-	1.8
Recognised in the statement of comprehensive income	(4.2)	(4.5)
Recognised in the statement of changes in equity	(11.2)	-
Disposal of subsidiaries	-	1.0
At January 2013	<b>4.0</b>	<b>15.4</b>



## 7. Taxation (continued)

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

	Gross value 2013 £m	Unrecognised deferred tax 2013 £m	Gross value 2012 £m	Unrecognised deferred tax 2012 £m
Property development trading losses	-	-	5.4	1.4
Capital losses	<b>83.0</b>	<b>19.1</b>	88.5	22.1
	<b>83.0</b>	<b>19.1</b>	93.9	23.5

The benefit of unrecognised capital losses will only accrue if taxable profits are realised on future disposals of the Group's capital assets.

## 8. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year to 28 January 2012 of 62.5p (2011: 53p) per share	<b>99.7</b>	89.5
Interim dividend for the year to 26 January 2013 of 31p (2012: 27.5p) per share	<b>48.0</b>	45.6
	<b>147.7</b>	135.1
Proposed final dividend for the year to 26 January 2013 of 74p (2012: 62.5p) per share	<b>113.5</b>	100.0

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 the shares held by the ESOT.

## 9. Earnings per share

	2013	2012
<b>Basic earnings per share</b>		
Continuing operations	<b>320.1p</b>	257.9p
Discontinued operations	-	24.1p
Total	<b>320.1p</b>	282.0p
Underlying basic earnings per share	<b>297.7p</b>	255.4p

Basic earnings per share is based on the profit for the year attributable to the equity holders of the parent company and the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOT during the period.

Underlying earnings per share is based on profit before the exceptional items described in Note 6.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. Earnings per share (continued)

	2013	2012
<b>Diluted earnings per share</b>		
Continuing operations	<b>311.7p</b>	251.6p
Discontinued operations	-	23.5p
<b>Total</b>	<b>311.7p</b>	275.1p
Underlying diluted earnings per share	<b>289.9p</b>	249.1p

Diluted earnings per share is based on the weighted average number of shares used for the calculation of basic earnings per share as increased by the dilutive effect of potential ordinary shares. Dilutive shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period. Their dilutive effect is calculated on the basis of the equivalent number of nil-cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. There were no such share options in the current year (2012: nil).

	2013	2012
<b>Fully diluted earnings per share</b>		
Continuing operations	<b>301.9p</b>	240.9p
Discontinued operations	-	22.5p
<b>Total</b>	<b>301.9p</b>	263.4p
Underlying fully diluted earnings per share	<b>280.8p</b>	238.5p

Fully diluted earnings per share is based on the weighted average number of shares used for the calculation of basic earnings per share, increased by the weighted average total employee share options outstanding during the period. Fully diluted earnings per share is used for the purposes of the Share Matching Plan, described further in the Remuneration Report.

The table below shows the key variables used in the earnings per share calculations:

	2013 £m	2012 £m
<b>Profit after tax attributable to equity holders of the parent company</b>		
Continuing operations	<b>508.7</b>	434.3
Discontinued operations	-	40.6
<b>Total</b>	<b>508.7</b>	474.9
Less exceptional items (see Note 6)	<b>(35.5)</b>	(44.8)
<b>Total underlying profit (for underlying EPS)</b>	<b>473.2</b>	430.1
<b>Weighted average number of shares (millions)</b>		
Weighted average shares in issue	<b>164.9</b>	174.3
Weighted average shares held by ESOT	<b>(6.0)</b>	(5.9)
<b>Weighted average shares for basic EPS</b>	<b>158.9</b>	168.4
Weighted average dilutive potential shares	<b>4.3</b>	4.3
<b>Weighted average shares for diluted EPS</b>	<b>163.2</b>	172.7
<b>Weighted average shares for basic EPS</b>	<b>158.9</b>	168.4
Weighted average total share options outstanding	<b>9.6</b>	11.9
<b>Weighted average shares for fully diluted EPS</b>	<b>168.5</b>	180.3

## 10. Property, plant & equipment

	Freehold property £m	Leasehold property £m	Plant and fittings £m	Total £m
<b>Cost</b>				
<b>At January 2011</b>	<b>74.3</b>	<b>8.3</b>	<b>1,352.6</b>	<b>1,435.2</b>
Exchange movement	-	-	(0.2)	(0.2)
Additions	-	-	126.1	126.1
Disposals	(0.8)	-	(28.9)	(29.7)
Disposal of subsidiaries	-	-	(47.6)	(47.6)
<b>At January 2012</b>	<b>73.5</b>	<b>8.3</b>	<b>1,402.0</b>	<b>1,483.8</b>
Exchange movement	-	-	(1.3)	(1.3)
Additions	0.2	-	81.4	81.6
Disposals	(4.2)	-	(23.8)	(28.0)
<b>At January 2013</b>	<b>69.5</b>	<b>8.3</b>	<b>1,458.3</b>	<b>1,536.1</b>
<b>Depreciation</b>				
<b>At January 2011</b>	<b>8.3</b>	<b>1.4</b>	<b>833.1</b>	<b>842.8</b>
Exchange movement	-	-	(0.1)	(0.1)
Provided during the year	-	-	118.8	118.8
Impairment charge	-	-	1.4	1.4
Disposals	(0.1)	-	(23.2)	(23.3)
Disposal of subsidiaries	-	-	(37.7)	(37.7)
<b>At January 2012</b>	<b>8.2</b>	<b>1.4</b>	<b>892.3</b>	<b>901.9</b>
Exchange movement	-	-	(1.1)	(1.1)
Provided during the year	-	-	116.4	116.4
Impairment charge	-	-	1.8	1.8
Disposals	(0.2)	-	(20.0)	(20.2)
<b>At January 2013</b>	<b>8.0</b>	<b>1.4</b>	<b>989.4</b>	<b>998.8</b>
<b>Carrying amount</b>				
<b>At January 2013</b>	<b>61.5</b>	<b>6.9</b>	<b>468.9</b>	<b>537.3</b>
At January 2012	65.3	6.9	509.7	581.9
At January 2011	66.0	6.9	519.5	592.4

The carrying amount of plant and fittings above includes an amount of £0.3m (2012: £0.4m) in respect of assets held under finance lease contracts.

At 26 January 2013 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £15.4m (2012: £9.5m).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Intangible assets

	Brand names & trademarks £m	Customer relationships £m	Goodwill £m	Total £m
<b>Cost</b>				
<b>At January 2011, January 2012 and January 2013</b>	<b>4.0</b>	<b>2.0</b>	<b>44.1</b>	<b>50.1</b>
<b>Amortisation and impairment</b>				
<b>At January 2011</b>	<b>0.9</b>	<b>1.1</b>	<b>1.6</b>	<b>3.6</b>
Provided during the year	0.4	0.5	-	0.9
<b>At January 2012</b>	<b>1.3</b>	<b>1.6</b>	<b>1.6</b>	<b>4.5</b>
Provided during the year	0.4	0.4	-	0.8
<b>At January 2013</b>	<b>1.7</b>	<b>2.0</b>	<b>1.6</b>	<b>5.3</b>
<b>Carrying amount</b>				
<b>At January 2013</b>	<b>2.3</b>	<b>-</b>	<b>42.5</b>	<b>44.8</b>
At January 2012	2.7	0.4	42.5	45.6
At January 2011	3.1	0.9	42.5	46.5

Customer relationships relates to contractual and other arrangements with corporate customers of Lipsy that existed at the date of acquisition.

The carrying amount of goodwill is allocated to the following cash generating units:

	2013 £m	2012 £m
NEXT Sourcing	30.5	30.5
Lipsy	12.0	12.0
	<b>42.5</b>	42.5

Goodwill is tested for impairment at the balance sheet date on the basis of value in use. As this exceeded carrying value for each of the cash generating units concerned, no impairment loss was recognised (2012: £nil).

*NEXT Sourcing*

The key assumptions in the calculation are the future sourcing requirements of the Group and the ability of NEXT Sourcing to meet these requirements based on past experience. In assessing value in use, the most recent financial results and internal budgets for the next year were used and extrapolated for four further years with no subsequent growth assumed, and discounted at 10% (2012: 10%).

*Lipsy*

In assessing the recoverable amount of goodwill and intangibles, the five year business plan for Lipsy was used and cash flows beyond this period extrapolated using a growth rate of 2% (2012: 2%), and discounted at 15% (2012: 15%). The key assumption is the net contribution margin from sales.

For both NEXT Sourcing and Lipsy, the calculated value in use significantly exceeded the carrying value of the goodwill and other intangible assets and no further sensitivity calculations were necessary to conclude that there was no impairment.

## 12. Interests in associates and other investments

	2013 £m	2012 £m
Interests in associates	6.2	6.1
Other investments	1.0	1.0
	<b>7.2</b>	<b>7.1</b>

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

	Sales		Amounts receivable	
	2013 £m	2012 £m	2013 £m	2012 £m
Choice Discount Stores Limited	5.6	4.8	0.4	0.7
Cotton Traders Limited	6.9	5.5	0.4	0.5
	<b>12.5</b>	<b>10.3</b>	<b>0.8</b>	<b>1.2</b>

## 13. Inventories

	2013 £m	2012 £m
Merchandise stocks	331.8	366.0
Property development stocks	-	5.9
	<b>331.8</b>	<b>371.9</b>

## 14. Customer and other receivables

	2013 £m	2012 £m
Directory customer receivables	726.6	686.9
Less: allowance for doubtful debts	(125.4)	(113.4)
	<b>601.2</b>	573.5
Other trade receivables	21.2	23.8
Less: allowance for doubtful debts	(0.2)	(0.3)
	<b>622.2</b>	597.0
Amounts due from associated undertakings	0.8	1.2
Other debtors	8.3	10.4
Prepayments	86.8	90.5
	<b>718.1</b>	<b>699.1</b>

No interest is charged on Directory customer receivables if the statement balance is paid in full; otherwise balances bear interest at a variable annual percentage rate of 25.99% (2012: 25.99%).

Expected irrecoverable amounts on overdue balances are provided for based on past default experience. Receivables which are impaired other than by age or default are separately identified and provided for as necessary.

The credit quality of customer receivables that are neither past due nor impaired is assessed by reference to the historical default rate for the preceding 365 days of approximately 1% (2012: 1%), although default rates over shorter periods may show significant variations.

Other debtors and prepayments do not include impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset. The Group does not hold any collateral over these balances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**14. Customer and other receivables (continued)**

Ageing of customer and other trade receivables:

	2013 £m	2012 £m
Not past due	609.7	580.3
0-30 days past due	40.0	37.7
30-60 days past due	9.2	10.8
60-90 days past due	3.5	4.5
90-120 days past due	2.2	2.9
Over 120 days past due	63.9	56.4
Otherwise impaired	19.3	18.1
<b>Total customer and other trade receivables</b>	<b>747.8</b>	<b>710.7</b>

Movement in the allowance for doubtful debts:

	2013 £m	2012 £m
Opening position	113.7	108.8
Charged to the income statement	28.3	29.9
Written off as uncollectible	(11.7)	(19.9)
Recovered during the year	(4.7)	(3.3)
Disposal of subsidiaries	-	(1.8)
<b>Closing position</b>	<b>125.6</b>	<b>113.7</b>

**15. Other financial assets**

	2013		2012	
	Current £m	Non- current £m	Current £m	Non- current £m
Foreign exchange contracts	10.8	-	12.5	-
Interest rate derivatives	10.8	30.9	-	44.6
	<b>21.6</b>	<b>30.9</b>	12.5	44.6

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 27). These instruments are primarily for US Dollars and Euros. Interest rate derivatives relate to the corporate bonds (Note 20).

**16. Cash and short term deposits**

	2013 £m	2012 £m
Cash at bank and in hand	42.1	45.8
Short term deposits	94.2	10.6
	<b>136.3</b>	<b>56.4</b>

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

	2013 £m	2012 £m
Bank overdrafts and overnight borrowings	5.4	7.6
Unsecured bank loans	-	-
	<b>5.4</b>	<b>7.6</b>

Bank overdrafts are repayable on demand and bear interest at a margin over bank base rates. Overnight borrowings and unsecured bank loans bear interest at a margin above LIBOR. The Group has medium term bank facilities of £300m (2012: £300m) committed until December 2016. None of this facility was drawn down at 26 January 2013 or 28 January 2012.

## 18. Trade payables and other liabilities

	2013		2012	
	Current £m	Non- current £m	Current £m	Non- current £m
Trade payables	189.2	-	193.1	-
Other taxation and social security	64.0	-	61.6	-
Deferred revenue from sale of gift cards	65.7	-	60.9	-
Property lease incentives received	27.2	190.7	22.1	188.9
Share-based payment liability	17.8	13.9	15.1	10.6
Other creditors and accruals	173.2	5.1	192.1	5.3
Finance leases	0.1	0.3	0.1	0.4
	<b>537.2</b>	<b>210.0</b>	<b>545.0</b>	<b>205.2</b>

Trade payables do not bear interest and are generally settled on 30 day terms. Other creditors and accruals do not bear interest. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the balance sheet date.

## 19. Other financial liabilities

	2013		2012	
	Current £m	Non- current £m	Current £m	Non- current £m
Foreign exchange contracts	0.8	-	2.6	-
Interest rate derivatives	3.4	-	-	4.4
Own equity share purchase contracts	83.3	-	84.4	-
	<b>87.5</b>	<b>-</b>	<b>87.0</b>	<b>4.4</b>

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 27). These instruments are primarily for US Dollars and Euros. Interest rate derivatives relate to the corporate bonds (Note 20).

Own equity share purchase contracts relate to liabilities of £42.3m (2012: £63.6m) arising under contingent purchase contracts and an irrevocable closed season buyback agreement for the purchase of the Company's own shares (Note 23), and net liabilities of £41.0m (2012: £20.8m) arising under contingent purchase contracts for the Company's own shares entered into by the ESOT (Note 26).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Corporate bonds

	Balance sheet value		Nominal value	
	2013 £m	2012 £m	2013 £m	2012 £m
Corporate bond 5.25% repayable 2013	87.6	89.9	85.5	85.5
Corporate bond 5.875% repayable 2016	218.5	218.8	212.6	212.6
Corporate bond 5.375% repayable 2021	348.3	343.4	325.0	325.0
	<b>654.4</b>	652.1	<b>623.1</b>	623.1

The 5.25% 2013 corporate bond is repayable in September 2013 and has therefore been classified as a current liability at 26 January 2013. The 2016 and 2021 bonds are classified as non-current liabilities.

The Group uses interest rate derivatives to manage the interest rate risk associated with its bonds. Interest on £310.5m of the Group's bonds has been swapped into floating rates based on LIBOR and the remaining £312.6m is at fixed rates.

	2013 Nominal value £m	2013 Effective interest rate	2012 Nominal value £m	2012 Effective interest rate
2013 bonds				
<i>Floating</i>	85.5	6m LIBOR + 0.9%	85.5	6m LIBOR + 0.9%
2016 bonds				
<i>Fixed</i>	162.6	5.875%	162.6	5.875%
<i>Floating</i>	50.0	6m LIBOR + 1.7%	50.0	6m LIBOR + 1.7%
	<b>212.6</b>		212.6	
2021 bonds				
<i>Fixed</i>	150.0	5.375%	150.0	5.375%
<i>Floating</i>	175.0	6m LIBOR + 1.9%	175.0	6m LIBOR + 1.9%
	<b>325.0</b>		325.0	
Total	<b>623.1</b>		623.1	

The fair values of the corporate bonds are shown in Note 29.

In the prior year, the Company issued £325m of new 10 year 2021 bonds and redeemed £120.8m of its 2013 bonds and £37.4m of its 2016 bonds. Holders of the 2013 and 2016 bonds were invited to tender their holdings, either for cash or in exchange for the new 10 year issue. The transactions were settled on a net basis and the amount shown in the cash flow statement of £153.3m represents the net cash received.



## 21. Pension benefits

The Group operates a pension plan in the UK which consists of defined benefit and defined contribution sections. The assets of the Plan are held in a separate trustee administered fund. The Plan has equal pension rights with respect to members of either sex and complies with the Employment Equality Regulations (2006). The defined benefit section was closed to new members in 2000 and is a funded arrangement which provides benefits based on pensionable earnings. The Group also provides unfunded retirement benefits to plan members whose benefits would otherwise be restricted by the lifetime allowance.

In June 2012, the Plan purchased a second buy-in contract for £23.4m in respect of pensions which had come into payment since the first buy-in in 2010. The contract allows for the transaction to be converted to a buy-out, following which the insurance company would become directly responsible for the pension payments, and it is intended to proceed on this basis. Accordingly, the transaction has been accounted for as a settlement and the accounting charge of £6.3m is included in the income statement as an exceptional item.

From November 2012 the future accrual of benefits for remaining employee members is based on pensionable earnings frozen at that time rather than final earnings. Those employees receive either additional contributions to the defined contribution section or a salary supplement. This change resulted in an accounting gain in the current year of £42.1m which is included in the income statement as an exceptional item.

The defined contribution section is for all members who joined after 2000, and benefits are based on each individual member's personal account. The Group has also made arrangements for auto-enrolment and contributions commenced in February 2013.

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

	2013			2012		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Current service cost	7.9	0.5	8.4	8.7	0.5	9.2
Interest cost on benefit obligation	24.1	0.4	24.5	25.0	0.4	25.4
Expected return on plan assets	(28.4)	-	(28.4)	(32.1)	-	(32.1)
Curtailement gain on pensionable pay freeze†	(39.3)	(2.8)	(42.1)	-	-	-
Settlement loss on buy-in/buy-out†	6.3	-	6.3	-	-	-
Net benefit (credit)/expense - continuing operations	(29.4)	(1.9)	(31.3)	1.6	0.9	2.5
Discontinued operations:						
Curtailement gain on sale of Ventura	-	-	-	1.5	-	1.5
Actual return on plan assets	68.3	-	68.3	34.3	-	34.3

† Included as exceptional items in the income statement (see Note 6).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. Pension benefits (continued)

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

	2013			2012		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening obligation	495.6	9.4	505.0	443.9	7.5	451.4
Current service cost	7.9	0.5	8.4	8.7	0.5	9.2
Interest cost	24.1	0.4	24.5	25.0	0.4	25.4
Curtailment gains	(39.3)	(2.8)	(42.1)	(1.5)	-	(1.5)
Employee contributions	0.2	-	0.2	0.2	-	0.2
Benefits paid	(12.4)	-	(12.4)	(10.4)	-	(10.4)
Actuarial losses	58.6	1.0	59.6	29.7	1.0	30.7
Closing pension benefit obligation	534.7	8.5	543.2	495.6	9.4	505.0

Changes in the fair value of defined benefit pension assets were as follows:

	2013			2012		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Opening assets	540.1	-	540.1	507.1	-	507.1
Employer contributions	18.9	-	18.9	8.9	-	8.9
Employee contributions	0.2	-	0.2	0.2	-	0.2
Benefits paid	(12.4)	-	(12.4)	(10.4)	-	(10.4)
Settlements (buy-in contract)	(6.3)	-	(6.3)	-	-	-
Expected return on assets	28.4	-	28.4	32.1	-	32.1
Actuarial gains	39.9	-	39.9	2.2	-	2.2
Closing pension benefit assets	608.8	-	608.8	540.1	-	540.1

The fair value of plan assets was as follows:

	2013		2012	
	£m	%	£m	%
Equities	296.8	48.7	223.2	41.3
Bonds	100.7	16.5	62.9	11.6
Gilts	35.6	5.8	62.0	11.5
Property	21.1	3.5	19.8	3.7
Insurance contracts	146.9	24.1	114.8	21.3
Other (cash deposits)	7.7	1.4	57.4	10.6
	608.8	100.0	540.1	100.0

The net defined benefit pension asset/(liability) is analysed as follows:

	2013			2012		
	Funded £m	Unfunded £m	Total £m	Funded £m	Unfunded £m	Total £m
Total assets	608.8	-	608.8	540.1	-	540.1
Benefit obligation	(534.7)	(8.5)	(543.2)	(495.6)	(9.4)	(505.0)
Net pension asset/(liability)	74.1	(8.5)	65.6	44.5	(9.4)	35.1

The IAS 19 valuation of the defined benefit section was undertaken by an independent qualified actuary as at 26 January 2013 using the projected unit credit method. As a substantial majority of pensions in payment are now insured, this year we have adopted separate assumptions for pensioner and non-pensioner liabilities. Changes in the assumptions for pensioner members covered by insurance (which now represent approximately 27% of the gross pension liabilities) have a neutral effect on the net IAS 19 balance sheet position.

## 21. Pension benefits (continued)

The principal actuarial assumptions used in the valuation were as follows:

	Pensioners 2013	Non- pensioners 2013	2012
Discount rate	4.25%	4.75%	5.00%
Salary increases	N/A	Nil	3.10%
Inflation – RPI	3.30%	3.45%	3.10%
Inflation – CPI	2.30%	2.45%	2.10%
		2013	2012
Life expectancy at age 65 (years)			
Pensioner aged 65 – male		22.6	22.5
Pensioner aged 65 – female		25.0	24.9
Non-pensioner aged 45 – male		24.8	24.7
Non-pensioner aged 45 – female		27.3	27.2
Expected rate of return on assets			
Equities		N/A	6.95%
Bonds		N/A	3.95%
Gilts		N/A	2.65%
Property		N/A	5.55%
Insurance contracts		N/A	5.00%
Other		N/A	2.65%
Average		N/A	5.18%

The adoption of IAS 19 (revised) from the beginning of the 2013/14 financial year means that it is not necessary to set assumptions for expected asset returns as at 26 January 2013.

Expected rates of return on plan assets are based on external historical and forecast market information, and actual rates will most likely vary from those shown above. The key sensitivity in the calculation is the discount rate. A decrease of 0.25% in the discount rates used would increase the gross liabilities by approximately £29m, which would be partly mitigated by an increase of approximately £5m on the insurance assets.

Members of the defined benefit section 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 was undertaken as at March 2010. The next full actuarial valuation will be performed as at March 2013 and future funding requirements will be determined taking into account recent plan changes. Members of the defined contribution section contribute 3% or 5% of pensionable earnings, which is matched by the Company.

Total employer contributions of £24.3m (2012: £13.1m) were made during the year, including a special contribution of £11m in respect of the buy-in and £5.4m (2012: £4.2m) in respect of the defined contribution section.

History of experience gains and losses:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of plan assets	608.8	540.1	507.1	432.8	325.8
Present value of defined benefit obligation	(543.2)	(505.0)	(451.4)	(482.3)	(394.9)
Surplus/(deficit) in the plan	65.6	35.1	55.7	(49.5)	(69.1)
Experience gains/(losses) on plan liabilities	4.2	(3.3)	19.0	(0.1)	19.0
Experience gains/(losses) on plan assets	39.9	2.2	11.2	52.4	(93.8)

At January 2013, cumulative actuarial losses recognised in the statement of comprehensive income since transition to IFRS at 1 February 2004 were £43.8m (2012: losses of £24.1m). 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

### 22. Provisions

	Vacant property costs £m
At January 2012	12.0
Provisions made in the year	7.4
Utilisation of provisions	(5.2)
Release of provisions	(3.5)
Unwind of discount	0.5
At January 2013	11.2

Provision is made for the committed cost of future rentals or estimated exit costs of properties no longer occupied by the Group, the average remaining lease term is four years (2012: three years).

### 23. Share capital

	2013 Shares '000	2012 Shares '000	2013 £m	2012 £m
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 10p each				
At January 2012	168,740	181,221	16.9	18.1
Shares issued	4	-	-	-
Purchased for cancellation	(7,510)	(12,481)	(0.8)	(1.2)
At January 2013	161,234	168,740	16.1	16.9

The table below shows the movements in equity from share purchases and commitments during the year:

	2013		2012	
	Shares '000	£m	Shares '000	£m
Shares purchased for cancellation in the year	7,510	241.3	12,481	289.7
Less: Commitment at start of year	(2,425)	(63.6)	(1,400)	(30.3)
Add: Commitment at end of year	1,050	42.3	2,425	63.6
Amount shown in Statement of Changes in Equity		220.0		323.0

Of the £63.6m commitment outstanding at January 2012, £16.0m was fulfilled in the current year and £47.6m was not fulfilled and expired.

At 20 March 2013, all £42.3m of the January 2013 commitment was unfulfilled and had expired, and was therefore subsequently credited back to equity.

### 24. Other reserves

Other reserves in the consolidated balance sheet comprise the reserve created on reduction of share capital through the Scheme of Arrangement under Section 425 of the Companies Act 1985 (£1,460.7m) less share premium account (£3.8m) and capital redemption reserve (£3.7m) 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) as at the date of transition to IFRS.

## 25. Equity settled share-based payments

The Group operates a number of share-based payment schemes as set out in the Remuneration Report on pages 45 and 46 and below:

### Management and Sharesave options

The following table summarises the movements in management and sharesave options during the year:

	2013		2012	
	No. of options	Weighted average exercise price	No. of options	Weighted average exercise price
Outstanding at beginning of year	9,219,193	£17.67	12,504,404	£14.66
Granted	2,069,776	£29.10	2,773,077	£20.73
Exercised	(2,933,737)	£14.75	(5,447,415)	£12.42
Forfeited	(403,435)	£21.57	(610,873)	£16.72
Outstanding at end of year	7,951,797	£21.52	9,219,193	£17.67
Exercisable at end of year	1,259,065	£15.98	1,410,373	£16.74

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was £31.54 (2012: £24.07). Options outstanding at 26 January 2013 are exercisable at prices ranging between £8.89 and £29.67 (2012: £8.89 and £21.89) and have a weighted average remaining contractual life of 6.3 years (2012: 6.5 years), as analysed below:

Exercise price range	2013		2012	
	No. of options	Weighted average remaining contractual life (years)	No. of options	Weighted average remaining contractual life (years)
£8.89 – £13.99	1,005,713	4.2	3,176,646	6.2
£14.12 – £17.82	705,784	2.1	1,183,255	2.7
£20.70	1,834,505	8.2	1,985,360	9.2
£20.84 – £21.89	2,421,024	5.8	2,873,932	6.6
£27.56 – £29.67	1,984,771	7.6	-	-
	7,951,797	6.3	9,219,193	6.5

### Share Matching Plan

The following table summarises the movements in nil cost share matching plan options during the year:

	2013	2012
	No. of options	No. of options
Outstanding at beginning of year	679,232	383,772
Granted	61,004	314,092
Forfeited	(65,190)	(18,632)
Outstanding at end of year	675,046	679,232

The weighted average remaining contractual life of these options is 8.0 years (2012: 8.8 years). There were no exercises of share matching plan options during the current or prior year, and none were exercisable at the end of the current or prior year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25. Equity settled share-based payments (continued)

## Fair value calculation

The fair value of management, sharesave and share matching plan options granted is calculated at the date of grant using a Black-Scholes option pricing model. 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.

The following table lists the inputs to the model used for options granted in the years ended 26 January 2013 and 28 January 2012 based on information at the date of grant:

<b>Management share options</b>	<b>2013</b>	<b>2012</b>
Weighted average share price at date of grant	<b>£29.67</b>	£20.70
Weighted average exercise price	<b>£29.67</b>	£20.70
Volatility	<b>37.9%</b>	41.4%
Expected life	<b>4 years</b>	4 years
Risk free rate	<b>0.70%</b>	2.37%
Dividend yield	<b>2.71%</b>	3.48%
Weighted average fair value per option	<b>£7.12</b>	£5.51
<b>Sharesave plans</b>	<b>2013</b>	<b>2012</b>
Weighted average share price at date of grant	<b>£34.44</b>	£26.05
Weighted average exercise price	<b>£27.56</b>	£20.84
Volatility	<b>25.4%</b>	34.4%
Expected life	<b>3.3 years</b>	3.3 years
Risk free rate	<b>0.46%</b>	0.96%
Dividend yield	<b>2.61%</b>	2.99%
Weighted average fair value per option	<b>£8.04</b>	£7.23
<b>Share Matching Plan</b>	<b>2013</b>	<b>2012</b>
Weighted average share price at date of grant	<b>£30.32</b>	£22.37
Weighted average exercise price	<b>Nil</b>	Nil
Volatility	<b>26.0%</b>	41.4%
Expected life	<b>3 years</b>	3 years
Risk free rate	<b>0.63%</b>	1.59%
Dividend yield	<b>2.97%</b>	3.49%
Weighted average fair value per option	<b>£27.74</b>	£20.15

## 26. 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. All management and sharesave options which were exercised during the year were satisfied by shares issued from the ESOT.

At 26 January 2013 the ESOT held 6,531,837 (2012: 5,637,388) ordinary shares of 10p each in the Company, the market value of which amounted to £265.1m (2012: £148.8m). Details of outstanding share options are shown in Note 25.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOT at 26 January 2013 and 28 January 2012 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.

## 26. Shares held by ESOT (continued)

The table below shows the movements in equity from ESOT share purchases and commitment movements during the year:

	2013		2012	
	Shares '000	Cost £m	Shares '000	Cost £m
Shares purchased by ESOT in the year	3,859	122.5	4,685	107.7
Less: Commitment at start of year	(825)	(20.0)	(725)	(15.4)
Add: Commitment at end of year	1,062	41.0	825	20.0
Amount shown in Statement of Changes in Equity		143.5		112.3
Shares issued on option exercises	2,965	44.3	5,440	67.6

Of the £20.0m commitment at January 2012, £7.3m was fulfilled in the current year and £12.7m was not fulfilled and expired.

At 20 March 2013, £6.3m of the commitment at January 2013 had been fulfilled, £10.8m remained open for potential completion, and £23.9m was unfulfilled and had expired and was therefore subsequently credited back to equity. At 19 March 2013, employee share options over 121,720 shares had been exercised subsequent to the balance sheet date and had been satisfied by ordinary shares issued by the ESOT.

## 27. Financial instruments: risk management and hedging activities

NEXT operates a centralised treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the Group's activities. As part of its strategy for the management of these risks, the Group uses derivative financial instruments. In accordance with the Group's treasury policy, derivative instruments are not entered into for speculative purposes. 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 and loans, and corporate bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

### Liquidity risk

The Group manages its cash and borrowing requirements centrally to 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 (including interest) of the Group's financial liabilities:

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
<b>2013</b>					
Bank loans and overdrafts	5.4	-	-	-	5.4
Trade and other payables	345.5	2.5	-	-	348.0
Finance lease liabilities	0.1	0.1	0.2	-	0.4
Corporate bonds	120.0	30.0	290.0	394.9	834.9
Other liabilities	83.3	-	-	-	83.3
	554.3	32.6	290.2	394.9	1,272.0
Derivatives: net settled	(13.0)	(4.5)	(11.8)	(11.3)	(40.6)
Derivatives: gross settled					
Cash inflows	(787.9)	(50.9)	-	-	(838.8)
Cash outflows	772.5	49.3	-	-	821.8
Total cash flows	525.9	26.5	278.4	383.6	1,214.4

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. Financial instruments: risk management and hedging activities (continued)

2012	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
Bank loans and overdrafts	7.6	-	-	-	7.6
Trade and other payables	373.5	-	-	-	373.5
Finance lease liabilities	0.1	0.1	0.3	-	0.5
Corporate bonds	34.4	120.0	302.5	412.3	869.2
Other liabilities	84.4	-	0.7	-	85.1
	500.0	120.1	303.5	412.3	1,335.9
Derivatives: net settled	(11.6)	(10.6)	(10.3)	(10.4)	(42.9)
Derivatives: gross settled					
Cash inflows	(819.2)	-	-	-	(819.2)
Cash outflows	810.0	-	-	-	810.0
Total cash flows	479.2	109.5	293.2	401.9	1,283.8

At 26 January 2013 the Group had borrowing facilities of £300m (2012: £300m) in respect of which all conditions precedent have been met and which are committed to December 2016 (2012: December 2016). None of this facility was drawn down at 26 January 2013 (2012: £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.

*Interest rates: fair value hedges*

The Group has interest rate swap agreements in place as fair value hedges of part of the interest rate risk associated with the Company's corporate bonds. Under the terms of the swaps, which have the same key features as the bonds, the Group receives a fixed rate of interest equivalent to the relevant coupon rate, and pays a variable rate. Details of the effective rates payable are given in Note 20.

The fair values of the Group's interest rate swaps, including accrued interest, are as follows:

	2013 £m	2012 £m
Derivatives in designated fair value hedging relationships	34.0	31.4
Other interest rate derivatives	4.3	8.8
Total interest rate derivatives	38.3	40.2

Other interest rate derivatives relate to economic hedges of variable rate interest payments due under swaps relating to the 2013 corporate bond which are not able to be hedge accounted for under IAS 39.

The fair values of 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.

*Foreign currency risk*

The Group's principal foreign currency exposures arise from the purchase of overseas sourced products. Group policy allows for these exposures to be hedged for up to 24 months ahead in order to fix the cost in Sterling. This hedging activity involves, inter alia, the use of spot, forward and option contracts.

The market value of outstanding foreign exchange contracts 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.



## 27. Financial instruments: risk management and hedging activities (continued)

The Group does not have a material exposure to currency movements in relation to translation of overseas investments and consequently does not hedge any such exposure. The Group's net exposure to foreign currencies, taking hedging activities into account is illustrated by the sensitivity analysis in Note 30.

### Foreign currency: cash flow hedges

The fair values of foreign exchange derivatives are as follows:

	2013 £m	2012 £m
Derivatives in designated hedging relationships	8.3	11.5
Other foreign exchange derivatives	1.7	(1.6)
<b>Total foreign exchange derivatives</b>	<b>10.0</b>	9.9

The total notional amount of outstanding foreign exchange contracts at the balance sheet date is as follows:

	2013 £m	2012 £m
US Dollar	770.3	727.5
Euro	64.1	90.3
Other	4.4	-
<b>Total</b>	<b>838.8</b>	817.8

### 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. Concentrations of risk are mitigated by the use of various counterparties at any one time. 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 Directory customer base being large and diverse. 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 31, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shown in the consolidated statement of changes in equity. 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 restricted by any externally imposed capital requirements.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**28. Financial instruments: categories**

	2013 £m	2012 £m
<i>Financial assets</i>		
Derivatives at fair value through profit and loss – held for trading	10.0	13.8
Derivatives in designated hedging relationships	42.5	43.3
Loans and receivables	630.8	608.4
Cash and short term deposits	136.3	56.4
Available for sale financial assets	1.0	1.0
<i>Financial liabilities</i>		
Derivatives at fair value through profit and loss – held for trading	(4.0)	(6.6)
Derivatives in designated hedging relationships	(0.2)	(0.4)
Corporate bonds	(654.4)	(652.1)
Amortised cost	(436.7)	(466.2)
Finance lease obligations	(0.4)	(0.5)

All derivatives are categorised as Level 2 under the requirements of IFRS 7, as they are valued using techniques based significantly on observed market data.

**29. 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:

	2013		2012	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<i>Corporate bonds</i>				
In hedging relationships	341.8	347.8	339.5	328.5
Not in hedging relationships	312.6	358.8	312.6	336.0
	<b>654.4</b>	<b>706.6</b>	652.1	664.5

The fair values of corporate bonds are their market values at the balance sheet date. Market values include accrued interest and changes in credit risk and interest rate risk, and are therefore different to the reported carrying amounts.

### 30. 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 closing 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, based on historic volatility.

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	
	2013 £m	2012 £m	2013 £m	2012 £m
<i>Sterling strengthens by 10%</i>				
US Dollar	(12.8)	(11.3)	(41.2)	(39.0)
Euro	0.8	(2.3)	(2.1)	(5.7)
<i>Sterling weakens by 10%</i>				
US Dollar	(0.8)	(8.0)	36.5	35.5
Euro	(1.0)	(1.2)	1.9	4.1

Year end exchange rates applied in the above analysis are US Dollar 1.58 (2012: 1.57) and Euro 1.17 (2012: 1.19). 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 closing 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, based on historic volatility.

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	
	2013 £m	2012 £m	2013 £m	2012 £m
Interest rate increase of 0.5%	(1.0)	(1.3)	(1.0)	(1.3)
Interest rate decrease of 0.5%	1.0	1.3	1.0	1.3

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 31. Analysis of net debt

	January 2012 £m	Cash flow £m	Other non-cash changes £m	January 2013 £m
Cash and short term deposits	56.4			136.3
Overdrafts	(7.6)			(5.4)
Cash and cash equivalents	48.8	82.2	(0.1)	130.9
Corporate bonds	(652.1)	-	(2.3)	(654.4)
Fair value hedges of corporate bonds	29.1	-	2.2	31.3
Finance leases	(0.5)	0.1	-	(0.4)
<b>Total net debt</b>	<b>(574.7)</b>	<b>82.3</b>	<b>(0.2)</b>	<b>(492.6)</b>

### 32. Operating lease commitments

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

	2013 £m	2012 £m
Within one year	216.8	207.5
In two to five years	778.5	756.7
Over five years	839.9	821.0
	<b>1,835.2</b>	<b>1,785.2</b>

At 26 January 2013, future rentals receivable under non-cancellable sub-leases where the Group is the lessor were £23.4m (2012: £39.0m).

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 1 month and approximately 20 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.

Additional information on the Group's leasing commitments as at 26 January 2013 is detailed in the table below:

	Minimum lease payments £m	Less sub-lease income £m	Net total £m
Year to January 2012 (Actual)	206.8	(6.2)	200.6
<b>Year to January 2013 (Actual)</b>	<b>208.4</b>	<b>(5.4)</b>	<b>203.0</b>
Year to January 2014	216.8	(3.9)	212.9
Year to January 2015	210.8	(3.5)	207.3
Year to January 2016	202.2	(3.2)	199.0
Year to January 2017	192.0	(2.9)	189.1
Year to January 2018	173.5	(2.7)	170.8
<b>Sub-total 5 years to January 2018</b>	<b>995.3</b>	<b>(16.2)</b>	<b>979.1</b>
5 years from February 2018 to January 2023	587.1	(6.7)	580.4
10 years from February 2023 to January 2033	244.2	(0.5)	243.7
2033 and beyond	8.6	-	8.6
<b>Total future obligations</b>	<b>1,835.2</b>	<b>(23.4)</b>	<b>1,811.8</b>

## COMPANY BALANCE SHEET

As at 26 January

	Notes	2013 £m	2012 £m
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	C2	2,475.7	2,475.7
Other financial assets	C3	30.9	44.6
		<b>2,506.6</b>	2,520.3
<b>Current assets</b>			
Trade and other receivables		6.3	7.4
Current tax asset		4.1	5.5
Other financial assets	C3	10.8	-
Cash and short term deposits		96.2	10.6
		<b>117.4</b>	23.5
<b>Total assets</b>		<b>2,624.0</b>	2,543.8
<b>Current liabilities</b>			
Corporate bonds	C4	(87.6)	-
Trade payables and other liabilities	C4	(297.7)	(247.4)
Other financial liabilities	C4	(86.7)	(84.4)
		<b>(472.0)</b>	(331.8)
<b>Non-current liabilities</b>			
Corporate bonds	C4	(566.8)	(652.1)
Other financial liabilities		-	(4.4)
		<b>(566.8)</b>	(656.5)
<b>Total liabilities</b>		<b>(1,038.8)</b>	(988.3)
<b>NET ASSETS</b>		<b>1,585.2</b>	1,555.5
<b>TOTAL EQUITY</b>		<b>1,585.2</b>	1,555.5

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Approved by the Board on 21 March 2013

**Lord Wolfson of Aspley Guise**  
Director

**David Keens**  
Director

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Additional information

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the financial year ended 26 January

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
<b>At January 2011</b>	<b>18.1</b>	<b>0.8</b>	<b>11.8</b>	<b>(138.6)</b>	<b>985.2</b>	<b>984.0</b>	<b>1,861.3</b>
Profit for the year	-	-	-	-	-	179.1	179.1
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	179.1	179.1
Share buybacks and commitments (Note C5)	(1.2)	-	1.2	-	-	(323.0)	(323.0)
ESOT share purchases and commitments (Note C5)	-	-	-	(112.3)	-	-	(112.3)
Shares issued by ESOT	-	-	-	109.8	-	(42.2)	67.6
Share option charge	-	-	-	-	-	17.9	17.9
Equity dividends paid	-	-	-	-	-	(135.1)	(135.1)
<b>At January 2012</b>	<b>16.9</b>	<b>0.8</b>	<b>13.0</b>	<b>(141.1)</b>	<b>985.2</b>	<b>680.7</b>	<b>1,555.5</b>
Profit for the year	-	-	-	-	-	478.7	478.7
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	478.7	478.7
Shares issued	-	0.1	-	-	-	-	0.1
Share buybacks and commitments (Note C5)	(0.8)	-	0.8	-	-	(220.0)	(220.0)
ESOT share purchases and commitments (Note C5)	-	-	-	(143.5)	-	-	(143.5)
Shares issued by ESOT	-	-	-	69.0	-	(24.7)	44.3
Share option charge	-	-	-	-	-	17.8	17.8
Equity dividends paid	-	-	-	-	-	(147.7)	(147.7)
<b>At January 2013</b>	<b>16.1</b>	<b>0.9</b>	<b>13.8</b>	<b>(215.6)</b>	<b>985.2</b>	<b>784.8</b>	<b>1,585.2</b>

## COMPANY CASH FLOW STATEMENT

For the financial year ended 26 January

	2013 £m	2012 £m
<i>Cash flows from operating activities</i>		
Operating loss	(0.1)	(1.1)
Share option charge	-	1.1
Decrease in trade and other receivables	-	1.2
Increase in trade and other payables	69.4	252.3
Cash generated from operations	69.3	253.5
Corporation taxes received	8.3	6.8
<b>Net cash from operating activities</b>	<b>77.6</b>	<b>260.3</b>
<i>Cash flows from investing activities</i>		
Dividends received	500.0	200.0
<b>Net cash from investing activities</b>	<b>500.0</b>	<b>200.0</b>
<i>Cash flows from financing activities</i>		
Repurchase of own shares	(241.9)	(291.1)
Purchase of shares by ESOT	(123.0)	(106.7)
Proceeds from disposal of shares by ESOT	43.4	67.6
Repayment of unsecured bank loans	-	(115.0)
Net proceeds from bond issue and tender	-	153.3
Interest paid	(23.0)	(23.7)
Interest received	0.2	1.0
Dividends paid	(147.7)	(135.1)
<b>Net cash from financing activities</b>	<b>(492.0)</b>	<b>(449.7)</b>
Net increase in cash and cash equivalents	85.6	10.6
Opening cash and cash equivalents	10.6	-
<b>Closing cash and cash equivalents</b>	<b>96.2</b>	<b>10.6</b>

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

### C1. Accounting policies

The accounting policies adopted for the parent company, NEXT plc, are the same as those used for the Group which are set out on pages 60 to 63. As permitted by Section 408 of the Companies Act 2006, 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 £478.7m (2012: profit of £179.1m).

### C2. Investments in subsidiaries

The Company has taken advantage of Section 410(2) of the Companies Act 2006 to list only its principal subsidiary and associated undertakings at 26 January 2013. All of these are wholly owned by the Company or its subsidiary undertakings, registered in England and Wales, and operate predominantly in the United Kingdom unless otherwise stated.

#### Subsidiary undertakings

NEXT Group Plc	Intermediate holding company
NEXT Retail Limited <sup>1</sup>	Retailing of fashion and home products
NEXT Directory <sup>2</sup>	Home shopping, including international online
NEXT Distribution Limited <sup>1</sup>	Warehousing and distribution
Lipsy Limited <sup>1</sup>	Fashion retailing
NEXT Sourcing Limited <sup>1</sup>	Overseas sourcing services (Hong Kong)
NEXT Manufacturing (Pvt) Limited <sup>1</sup>	Garment manufacture (Sri Lanka)

#### Associated undertakings

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

<sup>1</sup> Shareholdings held by subsidiary undertakings

<sup>2</sup> The trade of the NEXT Directory is carried out as a division of NEXT Retail Limited

### C3. Other financial assets

Other financial assets comprise interest rate derivatives as detailed in Note 15 of the consolidated financial statements, which are carried at their fair value.

### C4. Current and non-current liabilities

Details of the terms of bank overdrafts and unsecured bank loans are given in Note 17. Further information on the Company's corporate bonds is given in Note 20.

Trade and other payables comprise £286.1m (2012: £235.5m) of amounts due to subsidiary undertakings and £11.6m (2012: £11.9m) of other creditors and accruals. Other current financial liabilities include interest rate derivatives carried at fair value (Note 19) and amounts payable under the Company's closed season buyback arrangements and contingent purchase contracts, including those entered into by the ESOT for the Company's own shares. Other non-current financial liabilities comprise interest rate derivative instruments carried at fair value (Note 19).

### C5. Share capital, ESOT and other reserves

Details of the Company's share capital and share buybacks are given in Note 23. ESOT transactions are detailed in Note 26. Other reserves in the Company balance sheet of £985.2m (2012: £985.2m) 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 Section 131 Companies Act 1985 merger relief.

### C6. 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 27. 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 corporate bonds as detailed in Notes 20 and 27. The fair values of the Company's corporate bonds are shown in Note 29.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

### C6. Financial instruments (continued)

	Income statement		Equity	
	2013 £m	2012 £m	2013 £m	2012 £m
Interest rate increase of 0.5%	(1.1)	(1.4)	(1.1)	(1.4)
Interest rate decrease of 0.5%	1.1	1.4	1.1	1.4

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

	2013 £m	2012 £m
<i>Financial assets</i>		
Derivatives at fair value through profit and loss – held for trading	7.7	13.2
Derivatives in designated hedging relationships	34.0	31.4
Cash and short term deposits	96.2	10.6
<i>Financial liabilities</i>		
Derivatives at fair value through profit and loss – held for trading	(3.4)	(4.4)
Corporate bonds	(654.4)	(652.1)
Amortised cost	(371.2)	(331.8)

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

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
<b>2013</b>					
Trade and other payables	287.9	-	-	-	287.9
Other liabilities	83.3	-	-	-	83.3
Corporate bonds	120.0	30.0	290.0	394.9	834.9
	491.2	30.0	290.0	394.9	1,206.1
Derivatives: net settled	(13.0)	(4.5)	(11.8)	(11.3)	(40.6)
<b>Total cash flows</b>	<b>478.2</b>	<b>25.5</b>	<b>278.2</b>	<b>383.6</b>	<b>1,165.5</b>

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
<b>2012</b>					
Trade and other payables	237.7	-	-	-	237.7
Other liabilities	84.4	-	-	-	84.4
Corporate bonds	34.4	120.0	302.5	412.3	869.2
	356.5	120.0	302.5	412.3	1,191.3
Derivatives: net settled	(11.6)	(10.6)	(10.3)	(10.4)	(42.9)
<b>Total cash flows</b>	<b>344.9</b>	<b>109.4</b>	<b>292.2</b>	<b>401.9</b>	<b>1,148.4</b>

### C7. Related party transactions

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

	2013 £m	2012 £m
Transactions with subsidiary undertakings:		
Recharge of costs	(386.3)	(419.4)
Funds advanced/(borrowed)	(164.3)	(16.3)
Dividends received	500.0	200.0
Interest payable	-	(1.0)
<b>Amounts due to subsidiary undertakings</b>	<b>(286.1)</b>	<b>(235.5)</b>



## HALF YEAR AND SECTOR ANALYSIS

	First half £m	Second half £m	Year to Jan 2013 £m	First half £m	Second half £m	Year to Jan 2012 £m
<b>Revenue</b>						
NEXT Retail	1,009.9	1,181.0	2,190.9	1,008.2	1,183.2	2,191.4
NEXT Directory	551.7	640.9	1,192.6	486.7	602.0	1,088.7
NEXT International Retail	37.9	39.8	77.7	33.6	42.7	76.3
NEXT Sourcing	3.0	5.8	8.8	3.2	4.3	7.5
Lipsy	26.9	31.2	58.1	22.7	32.2	54.9
Property Management	2.7	17.6	20.3	3.1	3.1	6.2
Other activities	8.2	6.2	14.4	8.0	8.1	16.1
<b>Total - continuing</b>	<b>1,640.3</b>	<b>1,922.5</b>	<b>3,562.8</b>	<b>1,565.5</b>	<b>1,875.6</b>	<b>3,441.1</b>
Ventura (discontinued)	-	-	-	64.8	-	64.8
<b>Profit before tax</b>						
NEXT Retail	122.7	208.4	331.1	122.5	201.2	323.7
NEXT Directory	137.7	164.4	302.1	112.8	149.8	262.6
NEXT International Retail	3.4	5.0	8.4	3.2	4.7	7.9
NEXT Sourcing	11.8	19.0	30.8	10.1	11.0	21.1
Lipsy	0.5	1.5	2.0	(0.4)	1.7	1.3
Property Management	3.6	9.0	12.6	3.4	2.2	5.6
Other activities	(20.2)	28.3	8.1	(10.3)	(10.1)	(20.4)
<b>Operating profit</b>	<b>259.5</b>	<b>435.6</b>	<b>695.1</b>	<b>241.3</b>	<b>360.5</b>	<b>601.8</b>
Net finance costs	(14.5)	(14.1)	(28.6)	(13.3)	(9.0)	(22.3)
<b>Total - continuing</b>	<b>245.0</b>	<b>421.5</b>	<b>666.5</b>	<b>228.0</b>	<b>351.5</b>	<b>579.5</b>
Ventura (discontinued)	-	-	-	2.9	-	2.9

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## FIVE YEAR HISTORY

Year to January	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
<b>Continuing operations</b>					
Revenue	3,562.8	3,441.1	3,297.7	3,260.9	3,109.6
Operating profit - underlying	650.2	598.7	566.8	523.8	473.2
Net finance costs - underlying	(28.6)	(28.4)	(23.4)	(24.5)	(49.5)
<b>Profit before taxation - underlying</b>	<b>621.6</b>	<b>570.3</b>	<b>543.4</b>	<b>499.3</b>	<b>423.7</b>
Exceptional items (pre-tax)	44.9	47.2	-	-	-
Ventura profit before tax (discontinued)	-	2.9	8.0	6.0	5.1
Taxation	(157.9)	(145.6)	(150.5)	(141.3)	(126.5)
<b>Profit after taxation</b>	<b>508.6</b>	<b>474.8</b>	<b>400.9</b>	<b>364.0</b>	<b>302.3</b>
Total equity	285.6	222.7	232.4	133.4	140.5
Shares purchased for cancellation	7.5m	12.5m	10.0m	5.9m	3.9m
Dividends per share	105.0p	90.0p	78.0p	66.0p	55.0p
Basic earnings per share					
Underlying	297.7p	255.4p	221.9p	188.5p	156.0p
Total	320.1p	282.0p	221.9p	188.5p	156.0p

.....  
Additional information

## 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 Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW on Thursday 16 May 2013 at 9.30 a.m. at which the following resolutions will be proposed; resolutions 1 to 15 as Ordinary Resolutions and 16 to 19 as Special Resolutions.

**Further information on these resolutions can be found in the Directors' Report and Business Review on pages 21 to 24 and in the appendix to this Notice. Biographies of directors seeking election/re-election are shown on page 27 of the Annual Report.**

1. To receive and adopt the accounts and reports of the directors and auditor for the year ended 26 January 2013.
2. To approve the remuneration report for the year ended 26 January 2013.
3. To declare a final dividend of 74p per share in respect of the year ended 26 January 2013.
4. To re-elect John Barton as a director.
5. To re-elect Christos Angelides as a director.
6. To re-elect Steve Barber as a director.
7. To re-elect Christine Cross as a director.
8. To re-elect Jonathan Dawson as a director.
9. To elect Caroline Goodall as a director.
10. To re-elect David Keens as a director.
11. To re-elect Francis Salway as a director.
12. To re-elect Andrew Varley as a director.
13. To re-elect Lord Wolfson as a director.
14. To re-appoint Ernst & Young LLP as auditor and authorise the directors to set their remuneration.
15. Directors' authority to allot shares

That:

- (a) the directors be authorised to allot equity securities (as defined in section 560 of the Companies Act 2006) in the Company:
  - (i) in accordance with article 7 of the Company's articles of association (the "Articles"), up to a maximum nominal amount of £5,300,000; and
  - (ii) up to a maximum nominal amount of £10,600,000 (as reduced by any equity securities allotted under paragraph (a)(i) above) in connection with an offer by way of a rights issue (as defined in article 8 of the Articles);
- (b) in accordance with article 7 of the Articles this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, or, if earlier, at the close of business on 1 August 2014; and
- (c) all previous unutilised authorities under section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted on or after that date).

16. Disapplication of pre-emption rights

That:

- (a) in accordance with article 8 of the Company's articles of association (the "Articles"), the directors be given power to allot equity securities for cash;

- (b) the power under paragraph (a) above (other than in connection with a rights issue, as defined in article 8(b)(ii) of the Articles) shall be limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £806,000;
- (c) in accordance with article 8 of the Articles this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 August 2014; and
- (d) all previous unutilised authorities under sections 570 and 573 of the Companies Act 2006 shall cease to have effect.

17. On-market purchase of own shares

That in accordance with the Companies Act 2006 (the "Act"), the Company be granted general and unconditional authority to make market purchases (as defined in Section 693 of the Act) of any of its own ordinary shares on such terms and in such manner as the directors may determine provided that:

- (a) the authority conferred by this resolution shall be limited to the lesser of 24,169,000 ordinary shares of 10p each and no more than 14.99% of the issued ordinary shares 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 18 below;
- (b) the minimum price which may be paid for ordinary shares (exclusive of expenses) is 10p per ordinary share;
- (c) the maximum price which may be paid for each ordinary share (exclusive of expenses) is an amount not more than the higher of 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 and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;
- (d) the authority hereby conferred, unless renewed, shall expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company held in 2014 and 1 August 2014;
- (e) the Company may make a contract or contracts 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 and may make a purchase of ordinary shares in pursuance of any such contract; and
- (f) all existing authorities for the Company to make market purchases of its own ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

18. Off-market purchases of own shares

That, in accordance with section 694 of the Companies Act 2006, the proposed programme agreements to be entered into between the Company and any of Goldman Sachs International, UBS AG, Deutsche Bank AG, HSBC Bank plc 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 forward trades which may be effected or made from time to time under or pursuant to the Programme Agreements for the off-market purchase by the Company of its ordinary shares of 10 pence each, as more fully described in Appendix 1 on pages 98 to 99 (the authority conferred by this special resolution to expire on whichever is the earlier of the conclusion of the next annual general meeting of the Company held in 2014 and 1 August 2014, unless such authority is renewed prior to that time (except in relation to the purchase of ordinary shares under any 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 17 above.

19. Notice of general meetings

That, in accordance with the Company's articles of association, a general meeting (other than an annual general meeting) may be called on not less than 14 clear days' notice.

By order of the Board

**Andrew McKinlay**

Secretary

Registered Office: Desford Road, Enderby, Leicester, LE19 4AT

15 April 2013

## NOTICE OF MEETING APPENDIX I (CONTINUED)

### **FURTHER INFORMATION ON RESOLUTION 18: OFF MARKET PURCHASES OF OWN SHARES**

As noted on pages 23 and 24 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 16 passed at the Company's 2012 Annual General Meeting ("AGM") shareholder authority was given to the Company to make on-market purchases of shares. This authority was limited to a maximum of 24.95 million shares and expires on the earlier of the date of the AGM held in 2013 or 1 August 2013. 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 any of Goldman Sachs International, UBS AG, Deutsche Bank AG, HSBC Bank plc and Barclays Bank plc (the "Bank(s)"). This authority was limited to a maximum of 8 million shares and expires on the earlier of the date of the AGM to be held in 2013 or 1 August 2013. Pursuant to those authorities and up to 19 March 2013, the Company has bought back 4,767,669 shares for cancellation, representing 2.9% of its issued share capital as at the date of the 2012 AGM, at a total cost of £162.9 million. Of these, 650,190 shares were bought back under contingent purchase contracts.

Under Sections 693 and 694 of the Companies Act 2006 (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 2012 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 with each of the Banks. Under these agreements (the "Programme Agreements"), the Company may (although it is not obliged to) enter into contingent forward trades ("Contingent Forward Trades" or "CFT") from time to time. The terms of each CFT will provide for the Company to 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 CFT (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.

Under the provisions of sections 693 and 694 of the Act, the Programme Agreements and Contingent Forward Trades are contingent purchase contracts to purchase shares by the Company off-market. Accordingly resolution 18, 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 next AGM to be held in 2014 or 1 August 2014 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 5.0 million, representing circa 3% of its issued share capital at 19 March 2013;
- the total cost of shares that the Company would be permitted to purchase pursuant to this authority may not exceed £200 million (including costs);
- the Forward Price may not exceed the higher of 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 CFT was effected and the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;
- 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 16 May 2013 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 2014 or on 1 August 2014, 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 16 May 2013. Copies will also be available for inspection at the Company's registered office at Desford Road, Enderby, Leicester LE19 4AT and at the offices of Pinsent Masons, 30 Crown Place, Earl Street, London EC2A 4ES during usual business hours until the date of the AGM and at the Meeting itself.

The total number of employee share options to subscribe for shares outstanding at 19 March 2013 was 8,468,294. This represents 5.3% of the issued share capital at that date. If the Company were to buy back the maximum number of shares permitted pursuant to both the existing authority for off-market purchases granted at the 2012 AGM (which will expire at the 2013 AGM) and the authority sought by this special resolution, then the total number of options to subscribe for shares outstanding at 19 March 2013 would represent 5.7% of the reduced issued share capital.

### Attendance, voting and questions

All members who hold ordinary shares are entitled to attend and vote at the AGM. A member who is entitled to attend and vote may appoint one or more proxies to attend and 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. If you do not intend being present at the meeting please either sign and return a hard copy form of proxy so as to reach the Company's registrars at least 48 hours before the meeting or follow the instructions for electronic proxy appointment through CREST or through [www.sharevote.co.uk](http://www.sharevote.co.uk) set out below. 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" and "Proxy card" below do not apply to a Nominated Person. The rights described in these paragraphs can only be exercised by registered members of the Company. Nominated persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

## NOTICE OF MEETING APPENDIX I (CONTINUED)

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted, the senior holder being the first named of the joint holders to appear in the Company's share register.

A member who appoints as their proxy someone other than the Chairman, is responsible for ensuring that the proxy attends the meeting and is aware of the voting intention of the member. If no voting instruction is given, the proxy has a discretion on whether and how to vote.

If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and its articles of association, specifies that only those shareholders registered in the register of members of the Company as at 6pm on 14 May 2013 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 6 pm on 14 May 2013 (or 6 pm on the day that is two days before any adjourned meeting) 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 validly appoint a proxy, are counted. The procedures for the poll votes will be explained at the AGM.

In respect of resolution 18 on off-market share purchase contracts, the Companies Act 2006 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 any poll votes which are cast in favour of resolution 18 attaching to 5.0 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 19 March 2013 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consists of 161,234,237 ordinary shares. All of the ordinary shares carry one vote each and there are no shares held in treasury.

A member attending the meeting has the right to ask questions. The Company must ensure any such question relating to the business being dealt with at the meeting is answered but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

## Electronic proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM to be held on 16 May 2013 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 is 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 CREST Manual is available at [www.euroclear.com/CREST](http://www.euroclear.com/CREST).

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 following documents will be available for inspection at the registered office of the Company during usual business hours and will be available for fifteen minutes prior to and for the duration of the AGM:

- Copies of the terms of appointment of the non-executive directors
- Copies of each of the Programme Agreements pursuant to resolution 18

Copies of each of the Programme Agreements pursuant to resolution 18 will be available for inspection at the offices of Pinsent Masons, 30 Crown Place, Earl Street, London EC2A 4ES during normal working hours until the close of the Annual General Meeting.

*You may not use any electronic address provided in this notice of meeting to communicate with the Company for any purposes other than those expressly stated.*

## OTHER INFORMATION

### Registered Office

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

### Company website

A full copy of this Annual Report, together with those for prior years, and other information required by section 311A of the Companies Act 2006 can be found on the NEXT plc website at [www.nextplc.co.uk](http://www.nextplc.co.uk)

Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 Companies Act 2006. The Company may not require the members requesting such website publication to pay its expenses in complying with sections 527 or 528 Companies Act 2006, and it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 Companies Act 2006 to publish on its website.

### Payment of dividend

The recommended final ordinary dividend, if approved, will be paid on 1 August 2013 to holders of ordinary shares registered at close of business on 28 June 2013. The ordinary shares will trade ex-dividend from 26 June 2013.

### Annual General Meeting

The Annual General Meeting will be held at 9.30 a.m. on Thursday 16 May 2013 at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW. The notice of the meeting on pages 96 to 101 sets out business to be transacted. Full access is available to the venue for those with special requirements.

### Proxy card

Completed proxy cards should be sent to our registrars, Equiniti, and **must be received by 9.30 a.m. on 14 May 2013** (or 48 hours before any adjourned meeting). 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](http://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. A member must inform the Registrar in writing of any termination of the authority of a proxy.

### Share price data

(Stock Exchange Code: NXT.L)

	2013	2012
Share price at financial year end	<b>£40.59</b>	£26.39
Market capitalisation	<b>£6,544m</b>	£4,453m
Share price movement during year:		
High mid-market quotation	<b>£40.59</b>	£28.10
Low mid-market quotation	<b>£26.19</b>	£18.68

### 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 plus network extras. Overseas Shareholder Helpline Number +44 (0)121 415 7047. Lines are open 8.30am to 5.30pm Monday to Friday.



**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. It cannot be used in conjunction with any other discount voucher or offer, nor can it be used for the purchase of gift cards, Sale merchandise, electrical goods, non-NEXT branded goods or at any branch of NEXT Clearance or purchases from NEXT Directory. 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 who should email [alyson\\_wenlock@next.co.uk](mailto:alyson_wenlock@next.co.uk).

**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](http://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](http://www.nextplc.co.uk) or from Equiniti, telephone 0871 384 2164.

**FORWARD LOOKING STATEMENTS**

This Report and Accounts contains "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 risks and uncertainties, including but not limited to those risks described in "Risks & Uncertainties" on pages 17 to 19; 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; insufficient consumer interest in NEXT Directory; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial or 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.

This report has been printed on recycled paper.

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