4412362

# NEXT

Annual Report and Accounts
January 2003

# 2003

# CONTENTS

NEXT

# JANUARY 2003
# SUMMARY OF PERFORMANCE

"I am pleased to report that NEXT continued to make good progress"

- Group turnover increased 18% to £2,202m
- Profit before tax increased 13% to £301m from £266m

"Earnings per share rose by 18% to 68.7p and were enhanced by the beneficial effect of the share buybacks"

- Dividends for the year increased 13% to 31p from 27.5p
- Dividend cover rises to 2.2 times

"Our ability to generate cash enables us to continue to buy back our shares"

- Post tax return on capital employed increased to 51%

"The success that we have achieved over many years is the result of product development, larger stores and increasing the number of home shopping customers"

# CHAIRMAN'S STATEMENT

I am pleased to report that NEXT continued to make good progress in the year ended January 2003.

Earnings per share rose by 18% to 68.7p and were enhanced by the beneficial effect of the share buybacks in the last two years. Post tax return on capital employed increased to 51%. The Board is recommending a final dividend of 21p making a total of 31p for the year, an increase of 12.7%. Dividend cover rises to 2.2 times.

My change of role within NEXT has given me the time and opportunity to take a step back from the day to day operations and review our corporate strategy.

Since the early 1990's we have resisted all attempts to increase the number of clothing brands that we operate because we were convinced that diversification would ultimately be to the detriment of the NEXT Brand. The success that we have achieved over many years as a result of product development, the progressive move to larger stores and the increase in the number of home shopping customers convinces us that it is right to continue with this strategy.

NEXT Retail is our most "visible" business, but no-one should overlook the NEXT Directory which now has a turnover of almost £500m and is one of the few really profitable home shopping companies in the UK.

Our ability to generate cash enables us to continue to buy back our shares when it is in the interests of our shareholders. This is an important part of our aim to deliver long term growth in earnings per share.

I believe that the success of NEXT is due to four main factors:

- Our focus on providing our customers with the product they want.
- The strength and skills of a good, well motivated management team that is honest to recognise its mistakes and quick to put them right.
- The support of our suppliers with whom we work in partnership to achieve good quality and value for money products.

And above all:

- The enthusiasm and dedication of all our employees who take great pride in the success of their company.

I would like to thank them all for their contribution to another successful year.

David Jones

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

**27 March 2003**

# CHIEF EXECUTIVE'S REVIEW

### INTRODUCTION

***Sales up 18%***

In the year ended January 2003 Group turnover was £2,202.6m, 18% ahead of the previous year. Sales in NEXT Retail were up 16%. NEXT Directory had a particularly good year with sales up 30%.

The year consisted of 53 weeks for NEXT Retail and Directory, compared with 52 weeks last year. This accounts for 1.6% of Retail sales growth and 2.7% of Directory sales growth. On a comparable basis Retail like-for-like sales increased by 3.3%. The NEXT Brand profit will have benefited by approximately £5m as a result of the extra week this year.

***Operating profit up 17%***

The operating profit before interest and taxation increased by 17%. The share buyback programme had two significant effects on our profit and loss account:

- An increased interest charge meant that profits after tax increased by 11%.

***Earnings per share up 18%***

- Earnings per share grew by 18% (ahead of the increase in operating profit despite an increased tax charge) due to the reduced number of shares in issue.

A more detailed explanation of the rationale and effects of the share buyback programme are given in a later section.

### PROFIT AND LOSS ACCOUNT

Turnover and profit figures are set out in the table below:

| | Turnover Excluding VAT | | Profit Before Tax | | |
|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | |
| | **£m** | £m | **£m** | £m | |
| NEXT Retail | **1,579.7** | 1,359.7 | **213.9** | 188.2 | |
| NEXT Directory | **471.7** | 362.2 | **65.1** | 49.2 | |
| The NEXT Brand | **2,051.4** | 1,721.9 | **279.0** | 237.4 | |
| NEXT Franchise | **22.7** | 19.1 | **4.4** | 3.7 | |
| Ventura | **97.4** | 101.9 | **11.2** | 13.0 | |
| Other activities | **31.1** | 28.8 | **15.1** | 12.5 | |
| ESOP charge | | | **(8.2)** | (8.0) | |
| Turnover & operating profit | **2,202.6** | 1,871.7 | **301.5** | 258.6 | **+17%** |
| Interest (expense)/income | | | **(0.3)** | 7.2 | |
| Profit before tax | | | **301.2** | 265.8 | |
| Taxation | | | **(90.7)** | (76.0) | |
| Profit after tax | | | **210.5** | 189.8 | **+11%** |
| Earnings per share | | | **68.7p** | 58.1p | **+18%** |

### STATEMENT OF FINANCIAL OBJECTIVE

***Sustainable long term growth in EPS***

The financial objective of the Group is to maximise *sustainable long-term growth in earnings per share.* Over the last five years earnings per share have grown by 86%.

We aim to grow EPS by:

- Continuing to advance the underlying operating profit of the NEXT Group. This will mainly be achieved through the development of product ranges, expansion of our selling space and the growth of our home shopping business.
- Continuing to enhance growth in EPS through the buying back of our shares for cancellation as and when it is in the interests of our shareholders generally.

# CHIEF EXECUTIVE'S REVIEW

## THE DEVELOPMENT OF THE NEXT BRAND

### Improving style, quality and value

The style, quality and value of our ranges remains our highest priority. We believe that it is the product that makes the brand successful, not vice versa. We will continue to pass on the benefits of better buying, by offering the same quality product at lower prices or a better product at the same price. This effort will remain at the heart of our business going forward.

### Autumn Winter 2002 selection issues

***Selection issues reduced like-for-like sales in autumn***

During the Autumn it became apparent that some of the Womenswear ranges were too narrowly focussed and had some important omissions. As a result we reviewed selection procedures in order to ensure that future ranges were better balanced. We were unable to make any significant improvements to these ranges before Christmas, but have been able to make improvements to the spring and summer ranges. We believe the benefits of these changes will become more apparent as the season progresses.

### New product development

We continue to develop and expand our product ranges where we believe an understanding of our customers, combined with our design skills, can genuinely add value. We have made good progress this year in the following new and developing areas: Lingerie, Maternity, Bodycare, Gifts, Kitchen, Bathroom, Skiwear and Fresh Flowers.

Whilst these new areas are exciting, we anticipate that the majority of our growth will still come from the development of our core clothing and home ranges.

## THE DEVELOPMENT OF NEXT RETAIL

### Rationale for space expansion

Our most important objective in NEXT Retail is to profitably expand our selling space. We believe that new space will continue to make a contribution to the growth of sales and profits in the years ahead, because it enables us to offer our customers a greater choice of product in a more comfortable shopping environment.

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

### Performance of new space

***Sales from new space exceeding target by 14%***

This year our space expansion programme has been particularly successful. The portfolio of new space is exceeding its appraised sales target by 14% and will pay back the net capital invested in 12 months.

### Profile of new space

During the year we added a net 357,000 square feet to our trading space, increasing the total by 18% to 2,338,000 square feet. The table below shows how the shape of our portfolio has changed over the last three years.

| Store size | Number of stores | | | % of selling space | | |
|---|---|---|---|---|---|---|
| (square feet) | **2003** | 2002 | 2001 | **2003** | 2002 | 2001 |
| Less than 5,000 | **182** | 198 | 225 | **23%** | 29% | 38% |
| 5,000-10,000 | **96** | 86 | 81 | **29%** | 30% | 34% |
| 10,000-15,000 | **34** | 22 | 16 | **18%** | 14% | 12% |
| 15,000-20,000 | **19** | 14 | 10 | **14%** | 12% | 10% |
| Greater than 20,000 | **13** | 11 | 4 | **16%** | 15% | 6% |
| TOTAL | **344** | 331 | 336 | | | |

# CHIEF EXECUTIVE'S REVIEW

**Impact on like-for-like sales**

***lew space rill reduce stated ke-for-like sales***

When appraising new stores we take into account the estimated lost sales and lost profit resulting from any impact on nearby stores. For example when we appraised a new out of town store near Bedford we estimated a reduction in turnover in the Bedford town centre store. As expected there has been a significant downturn in the original store, but it still makes more than 20% store profit and will therefore remain trading.

Retail companies define like-for-like sales in different ways. NEXT includes all stores that have traded for at least one full year and that have not benefited from capital expenditure amounting to more than 2% of their annual turnover. Inevitably this includes all those stores that have been affected by new openings. We have never made adjustments for deflected sales when stating our like-for-like sales. Therefore, the addition of new space reduces our stated like-for-like sales and we estimate that the effect of this attrition last year was 1%.

**The year ahead**

We currently expect to increase net selling space by at least 400,000 square feet in the year ahead.

**THE DEVELOPMENT OF NEXT DIRECTORY**

Our two main objectives in NEXT Directory are to:

- Increase the number of people using the Directory by increasing our customer base.
- Increase the breadth of offer available to order from home through increasing the number of pages.

**Growing the customer base**

***Continued growth in customer numbers***

The growth in new customers has made the most significant contribution to the growth of sales in our home shopping division. During the year we made good progress and start the new year with 22% more customers than a year ago.

| | **January 2003** | January 2002 | **Growth** |
|---|---|---|---|
| **Total active customers** | **1,467,000** | 1,201,000 | **22%** |

We expect to make further progress with recruitment, although not at this exceptional rate.

**Expansion of pages and product offer**

We have increased the number of pages in order to expand the choice of product available to the NEXT home shopper. In particular this has enabled us to develop our Home and Childrens ranges. The table below shows how the pages printed for each product area have increased:

| Product pages | **2003** | 2002 | **% Growth** |
|---|---|---|---|
| Womens | **813** | 803 | **1%** |
| Mens | **459** | 432 | **6%** |
| Childrens | **422** | 352 | **20%** |
| Home | **451** | 328 | **38%** |
| TOTAL | **2,145** | 1,915 | **12%** |

The NEXT Directory also allows us to trial new product areas without making the level of stock investment that would be required for a retail offer.

**Improving service**

***Directory services in store***

Over the last 12 months we have continued to integrate our retail and home shopping services so that our customers can shop at NEXT in the way that suits them the best. For example during the last year we allowed our home shopping customers to have their purchases delivered to a convenient store for collection (free of any delivery charge). Currently one in twenty Directory deliveries are being made in this way.

# CHIEF EXECUTIVE'S REVIEW

We have no preference as to whether our customers buy in Retail or through the Directory. Our priority is that they purchase in whichever way is the most convenient for them because in this way they are more likely to purchase again. The profitability of sales through alternative channels is not significantly different.

In the year ahead we will be particularly focussed on improving our delivery service on furniture, where we experienced some difficulties last year.

### NEXT FRANCHISE

Our overseas franchise operation had another successful year, with sales increasing by 19% and profit by 20%. At the end of January 2003 we had 59 franchise stores compared with 49 the previous year. We expect continued progress in the year ahead.

### VENTURA

***Focus on delivering good service at excellent prices***

Ventura's profit decreased to £11.2m compared with £13m the previous year. The reduction is mainly attributable to margin pressure in the call centre industry.

Ventura cannot expect high margins in an industry where there is little to differentiate competing services. We must offer a high quality service at very reasonable prices, and to that end we must rigorously manage our cost base whilst delivering excellent operations to our clients. Significant progress has been made in this area over the last year and as a result Ventura has won three important new contracts in the Insurance, Energy and Public Sectors.

During the year we reduced the outstanding consumer receivables by £5m to £12m. This process of collecting out the existing debt is profitable and will continue.

Ventura expects to use all existing operational facilities over the next 12 months as a result of winning new business. Further capital investment will be made at our Leeds and Dearne Valley sites to increase capacity and improve efficiency in the year ahead.

### OTHER ACTIVITIES

***New sourcing office in Near East***

The profit of £15.1m (last year £12.5m) includes £17.9m from NEXT Asia, our product sourcing company in the Far East, and a first time contribution of £0.3m from NEXT Near East, which we purchased during the year. This division sources product in Turkey, Romania and Sri Lanka. Other Activities also includes our Property Management Division, Choice (an associated company which operates a chain of twelve discount stores), Callscan (which was sold during the year) and Central Costs.

We have continued to recognise the cost of our Sharesave and Management share option schemes through the Profit and Loss account. Over the past five years the average annual cost has been £5.2m, this year the charge amounted to £8.2m compared with £8m last year. Over 7,000 of our employees currently hold a total of 9 million share options in NEXT.

***Increase in pension charge of £5m***

An actuarial valuation of our defined benefit pension scheme was again undertaken during the year. This determined that at 31 March 2002 scheme assets represented 98% of scheme liabilities, compared with 107% at the previous year's valuation. However, since then the market value of scheme assets has fallen. Under SSAP24 we estimate that at 1 February 2003 with the FTSE 100 index at 3,567 there was a past service deficit of around £62m, which would require an additional charge of £5m per annum over the next thirteen years. The net pension liability under FRS 17 at 1 February 2003 is estimated to be £71.2m.

### SHARE BUYBACKS

In 2000 the Board decided to embark on a programme to enhance earnings per share through share buybacks. Since that time the issued share capital of the Company has been reduced by 25% from 374 million shares to 280 million.

In the last financial year we purchased 44 million shares for cancellation at an average price of 893p, representing 13% of the shares in issue at the beginning of the year.

As shares were purchased throughout the year the full effect of the buyback will be spread over two years. During the year the average shares in issue fell from 335 million to 314 million and, as a direct result, earnings per share were enhanced by 3%. The current year will benefit from further significant enhancement as a consequence of these purchases.

#### Rationale for share buybacks

***Maintaining focus***

Share buybacks allow us to leverage our balance sheet and expected future cash flows without changing the underlying *operational* risks of the NEXT Group. In this way they enhance earnings per share without deflecting management time from the core business.

At the heart of this programme is the ability of the Company to generate strong free cash flows after allowing for significant investment in new stores.

# CHIEF EXECUTIVE'S REVIEW

***Buyback will not restrict capital investment***

The Board has set two important limitations on the use of debt to buy back shares.

- The primary use of capital will continue to be investment in the development of our core businesses. We do not see share buybacks as an alternative to capital investment.
- We intend to maintain the Company's investment grade credit rating.

***Minimal effect on future cash flows***

***Effect on future cash flows***

The acquisition of shares at current prices and interest rates does not significantly affect the Company's *ongoing* cash flow. This is because the resulting additional cost of interest is almost completely offset by tax and dividend savings.

**Capital reconstruction**

In November we obtained shareholder and Court approval for a capital reconstruction to increase our distributable reserves. The new listed holding company was renamed NEXT plc and shareholders received one new share in exchange for each share previously held. Distributable reserves have thereby been increased and they will not be a limiting factor when considering dividends or share buybacks for the foreseeable future.

**Buybacks in the current year**

Since the year end 6.6 million shares have been purchased and cancelled at a cost of £52m, leaving 280 million shares in issue. We currently have shareholder approval to purchase up to a further 9% and, at our AGM in May, we will seek to renew the authority to purchase shares.

We intend to continue with our policy of buying back shares as and when it is in the interests of shareholders generally.

## BALANCE SHEET AND CASH FLOW

***Capex of £86m***

*At January 2003 net borrowings were £189m compared with net cash of £194m the previous year. The cash outflow of £383m* was due primarily to the £392m cost of shares purchased for cancellation. Capital expenditure amounted to £86m, which included £64m on stores.

Stock levels at £235m were in line with our trading requirements despite being significantly ahead of last year. In January 2002 we were under-stocked, and the increase in stock on two years ago is in line with the increase in sales over that period. After each end of season Sale we write all residual stock down to 30% of original cost and at January 2003 this stock amounted to 7% of the total.

## DIVIDEND

***Consistent record of increases***

The Directors are pleased to recommend a final dividend of 21p against 18.5p last year, bringing the total for the year to 31p compared with 27.5p last year, an increase of 12.7%. The dividend is covered 2.2 times by earnings per share of 68.7p.

## CURRENT TRADING

In the first seven weeks since the start of the new financial year NEXT Retail sales are 13% ahead of the previous year. Like-for-like sales in the 289 stores which have been trading for at least one year are level with last year. NEXT Directory sales for the first seven weeks are also 13% ahead of the previous year.

We will make a further statement on current trading at our Annual General Meeting on 13 May 2003.

Simon Wolfson

**Simon Wolfson**
**Chief Executive**

**27 March 2003**

# DIRECTORS AND OFFICERS

## EXECUTIVE DIRECTORS

**David Jones CBE, Chairman**
Aged 60
Joined the Group and was appointed to the Board in 1986. Appointed Chief Executive in 1988 and became Deputy Chairman in 2001 and Chairman in May 2002. Previous experience includes twenty years in a large home shopping and consumer services group and five years as Chief Executive of a UK listed home shopping plc.

**Simon Wolfson, Chief Executive**
Aged 35
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 39
Joined the Group in 1986 and was appointed General Manager of the Company's sourcing office in Hong Kong in 1989, Menswear Product Director in 1994 and Womenswear Product Director in 1998. Appointed to the Board in 2000.

**David Keens, Group Finance Director**
Aged 49
Joined the Group in 1986 and was appointed to the Board in 1991. Previous experience includes seven years in the accountancy profession and nine years in the UK and overseas operations of a multi-national manufacturer of consumer goods.

**Andrew Varley, Group Property Director**
Aged 52
Joined the Group in 1985 and was appointed to the Board in 1990. Previous experience includes twelve years in retail and commercial property.

## BOARD COMMITTEES

*Audit Committee*
D N D Netherton (Committee Chairman)
R J O Barton
J A Burdus
A C Mitchell-Innes
This committee reviews the Group's internal control, accounting policies and its financial reporting.

*Remuneration Committee*
R J O Barton (Committee Chairman)
J A Burdus
A C Mitchell-Innes
D N D Netherton
This committee sets the remuneration of the Group's executive directors.

*Nomination Committee*
A C Mitchell-Innes (Committee Chairman)
R J O Barton
J A Burdus
D N D Netherton
This committee considers the appointment of the Group's directors.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Alistair Mitchell-Innes, Deputy Chairman and Senior Independent Non-Executive Director**
Aged 69
Became a member of the Board in 1989. He is also Chairman of NEXT Pension Trustees Limited and Anglo & Overseas Trust plc. Formerly Chief Executive of Nabisco UK, he has held senior non-executive appointments in other UK plc's and is also a Trustee of the British Heart Foundation.

**Ann Burdus CBE**
Aged 69
Became a member of the Board in 1993. She is also a non-executive director of Prudential Corporation PLC and a special trustee of the St. Bartholomew's and The Royal London Charitable Foundation. Previous experience includes a career in advertising, marketing and market research.

**Derek Netherton**
Aged 58
Became a member of the Board in 1996. He is also Chairman of Greggs plc and a non-executive director of Hiscox plc, St. James's Place Capital plc and Plantation & General Investments plc. Formerly a director of J. Henry Schroder Co. Limited and currently a member of the Schroder Exempt Property Unit Trust Supervisory Board.

**John Barton**
Aged 58
Became a member of the Board in 2002. He is also Chairman of Wellington Underwriting Plc and a non-executive director of Hammerson Plc, General Insurance Standards Council Ltd and WH Smith PLC. Formerly Chief Executive of JIB Group plc for thirteen years and Chairman of Jardine Lloyd Thompson Group plc for five years.

**Company Secretary**
W R Barnes

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

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

**Auditors**
Ernst & Young LLP

**Merchant Bankers**
Lazard & Co., Limited

**Stockbrokers**
UBS Limited

# DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and audited accounts for the period ended 1 February 2003.

**Capital reconstruction and change of name**

The current holding company was incorporated on 9 April 2002 as Bronzejasper Public Limited Company ('Bronzejasper'). At an Extraordinary General Meeting on 1 November 2002 shareholders of NEXT plc approved a Scheme of Arrangement under Section 425 of the Companies Act 1985. Following the Scheme becoming effective on 22 November 2002, NEXT plc was acquired by the current holding company, was delisted from the Official List and changed its name to NEXT Group Plc. The current holding company was renamed NEXT plc and was admitted to the Official List on 25 November 2002 and a capital reconstruction was implemented. Shareholders received one new share for each existing share and there was no change in any shareholder's participation in the ownership of the business as a consequence of the reconstruction. Further details are provided in Note 21 to the accounts.

References throughout the annual report and audited accounts to the 'Company' refer to NEXT Group Plc (formerly NEXT plc) prior to 22 November 2002 and NEXT plc thereafter.

**Principal activities**

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

**Review of operations**

Group results are summarised in the consolidated profit and loss account on page 22. The amount of profit transferred to reserves for the year was £124.5m. Turnover and operating profit of the Group are shown in greater detail in the analysis on page 27. The Chief Executive's Review on pages 3 to 7 gives details of the Group's operations.

**Dividends**

The directors recommend that a final dividend of 21p per share be paid on 1 July 2003 to shareholders on the register of members on 30 May 2003. The Trustee of the NEXT Employee Share Ownership Plan Trust (ESOP) has waived dividends paid in the year on shares held by the ESOP, see Note 13 to the accounts.

**Share capital**

**Changes in the period from 27 January 2002 to 22 November 2002**

The Company was authorised by its shareholders to purchase the Company's own shares for cancellation. During the period the Company purchased a total of 32,517,863 ordinary shares of 10p each for cancellation at a cost of £301.8m, representing 9.84% of its issued share capital. On 22 November 2002 the Company had 298,100,916 shares in issue.

**Changes in the period from 22 November 2002 to 1 February 2003**

The Company was authorised by its shareholders to purchase the Company's own shares for cancellation. During the period the Company purchased a total of 11,355,365 ordinary shares of 10p each for cancellation at a cost of £89.9m, representing 3.81% of its issued share capital. The authority to purchase shares is renewable annually and approval will be sought from shareholders at the Annual General Meeting in 2003 to renew the authority.

On 1 February 2003 the Company had 286,745,551 shares in issue. Since that date the Company has continued to purchase shares in the market. Up to 24 March 2003 the Company had purchased and cancelled a further 6,644,635 shares at a cost of £52.1m, representing 2.32% of its issued share capital.

**Supplier payment policy**

The Group's policy for the payment of suppliers is either to agree terms of payment at the start of business or to ensure that the supplier is aware of the Group's payment terms. Payment is made in accordance with contractual and other legal obligations. Trade creditor days of the Group at 1 February 2003 were 27 days (2002: 24 days) based on the ratio of trade creditors at the end of the year to the amounts paid during the year to trade creditors. The Company had no trade creditors at 1 February 2003.

**Treasury operations and financial instruments**

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

# DIRECTORS' REPORT

*Liquidity management*

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses. Investments of cash surpluses are made through banks and companies which must fulfil credit rating and investment criteria approved by the Board of Directors. Borrowing requirements are supported by committed bank facilities of £250m as at 1 February 2003 (2002: £110m). At the year end, the Group had net borrowings of £188.8m (2002: net cash balances of £194.0m). The Group did not issue, repay or have outstanding any long term debt during the year.

*Interest rate management*

The Board of Directors have approved the use of interest rate swaps, forward rate agreements and similar instruments to manage interest rate exposures on its cash and borrowing position. No such instruments were utilised during the year.

*Foreign currency management*

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

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

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

**Employees**

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

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

**Donations**

During the year the Group made charitable donations of £403,000 (2002: £526,000). No donations were made for political purposes.

**Substantial shareholders**

As at 24 March 2003 the following notifications had been received from holders of material interests in 3% or more of the Company's issued share capital as shown:

| | No. of 10p ordinary shares | % |
|---|---|---|
| Barclays PLC | 14,696,233 | 5.25 |
| Scottish Widows Investment Partnership Ltd | 11,904,744 | 4.25 |
| Artisan Partners Limited Partnership | 11,303,922 | 4.04 |

**Directors**

The current Board of Directors is shown on page 8 of this Report. John Barton was appointed to the Board on 15 February 2002. Sir Brian Pitman retired on 16 May 2002. Lord Tony Grabiner was appointed on 16 May 2002 and resigned on 31 October 2002 due to a conflict of interest.

The initial directors of Bronzejasper were as follows:

| | Appointed | Resigned |
|---|---|---|
| Swift Incorporations Limited | 9 April 2002 | 24 April 2002 |
| Instant Companies Limited | 9 April 2002 | 25 April 2002 |
| Precis Company Services Limited | 24 April 2002 | 9 September 2002 |
| Peregrine Secretarial Services Limited | 25 April 2002 | 9 September 2002 |

# DIRECTORS' REPORT

The directors of NEXT plc were appointed directors of Bronzejasper on 9 September 2002. Bronzejasper changed its name to NEXT Group Plc on 11 September 2002 and to NEXT plc on 22 November 2002.

All current directors will retire at the Annual General Meeting, having been appointed to the current holding company during the year. All are eligible and willing to be reappointed.

The interests of the directors who held office at 1 February 2003 and their families are shown in the Directors' Remuneration Report on page 20.

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

**Annual General Meeting**
The following resolutions will be proposed at the Annual General Meeting, notice of which is on pages 49 and 50.

**Renewal of authority to allot shares**
Ordinary Resolution 14 will renew the directors' authority pursuant to Section 80 of the Companies Act 1985 to allot shares. The nominal value of ordinary shares which the directors may allot in the five year period from the date of the Annual General Meeting pursuant to this authority is limited to £10,100,000. The directors do not have any present intention of exercising this authority other than to allot shares under the Company's employee share schemes.

Special Resolution 15 will renew the directors' authority pursuant to Section 95 of the Companies Act 1985 to issue ordinary shares wholly for cash without first offering them to existing shareholders in proportion to their holdings. This resolution limits the nominal value of ordinary shares which may be issued by the directors to 5% of the issued ordinary share capital in conformity with the guidelines of the UK Listing Authority. This authority will expire five years after the date of the Annual General Meeting of the Company.

**Purchase of own shares**
Special resolution 16 will renew the authority for the Company to make market purchases (as defined in Section 163 of the Companies Act 1985) of the Company's ordinary shares of 10p each provided that:

(a) the aggregate number of ordinary shares authorised to be purchased shall be the lesser of 42,000,000 or 15% of the issued ordinary share capital outstanding at the date of the Annual General Meeting,

(b) the payment per ordinary share is not less than 10p and not more than 5% over the average of the middle market price of the ordinary shares according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase, and

(c) the renewed authority expires on whichever is the earlier of 18 months after the date on which the resolution is passed or at the conclusion of the next Annual General Meeting of the Company in 2004.

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

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

By order of the Board

W R Barnes

**W R Barnes**
**Secretary**

**27 March 2003**

# CORPORATE GOVERNANCE

**Combined Code compliance**

The Group has complied throughout the year under review with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority.

**The Board of Directors**

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

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

The Board includes four non-executive directors who bring considerable knowledge, judgement and experience to the Board. The Board has appointed committees to carry out certain of its duties, three of which are detailed below. Further committees are charged with carrying out day to day management of the Group. In addition to formal meetings, open and frequent discussions are held between all directors and a considerable amount of information is provided to non-executive directors on an ad hoc basis. All directors are required to submit themselves for re-election by shareholders at least every three years.

**Audit Committee**

The Committee has written terms of reference which deal clearly with its authority and duties. It comprises four independent non-executive directors including the Senior non-executive director. The Committee holds regular, structured meetings at least three times per year and consults with external auditors and senior management. The Committee reviews the effectiveness of the risk management process and significant risk issues are referred to the Board for consideration. The Committee also considers financial reporting and reviews the Group's accounting policies relating thereto. In particular, major accounting issues of a subjective nature are discussed by the Committee.

**Remuneration Committee**

The Committee consists of four independent non-executive directors including the Senior non-executive director. The Committee's objective is to review and set a competitive level of remuneration for the executive directors. A Directors' Remuneration Report is included in this Annual Report.

**Nomination Committee**

The Committee consists of four independent non-executive directors including the Senior non-executive director.

**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 to the Board at each meeting all material matters affecting the Group and its performance.

**Management delegation**

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

**Risk management**

The Board is responsible for the Group's risk management process. It has delegated responsibility for implemention of the risk management process 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 again carried out a review of the effectiveness of the Group's system of internal control covering financial, operational, compliance and other controls and risk management. This includes identifying, evaluating, prioritising and revising risks, determining a control strategy for each significant risk and consideration of how each risk might impact on the

# CORPORATE GOVERNANCE

achievement of the business objectives. The risk management process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and is in accordance with the guidance 'Internal Control: Guidance for Directors on the Combined Code'.

Risk management and internal control is a continuous process for the Board and has been considered 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, including a review of these risks which has taken into account any changes in circumstances over the period. The Audit Committee has reviewed the level of internal audit resource available within the Group and believes that it is appropriate to the size and business risks of the Group.

The Board considers that the Group's hierarchical structure of management and timely and continuous monitoring of key performance indicators provide the early warning mechanisms necessary to identify any material areas of concern. Business continuity plans, procedures manuals and codes of conduct have been implemented in respect of specific major risk areas. Through these procedures the management of business risk is an integral part of Group policy and the Board will continue to enhance risk management and internal control procedures wherever practical.

**External auditors**

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

**Personal use of company assets**

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

**Relations with shareholders**

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

The Board communicates with its shareholders in respect of the Group's business activities through its Annual Report and Accounts, yearly and half yearly announcements and regular trading updates to the Stock Exchange. Shareholders have an opportunity to ask questions or represent their views at the Annual General Meeting. The Board takes care not to disseminate information of a share price sensitive nature which is not available to the market as a whole.

**Directors' responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

**Going concern**

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

# SOCIAL RESPONSIBILITY STATEMENT

The NEXT Group takes social, environmental and ethical ('SEE') matters seriously. The Group is committed to corporate social responsibility from Board level and throughout the Group. The Group has taken actions to contribute to ethical trade and, within commercial constraints, sustainable development. The Board has identified and assessed the key business risks, issues and opportunities arising from SEE matters. An executive director has responsibility for SEE matters and considers all aspects of the Group's conduct in this respect.

The Group's efforts to improve sustainable development will continue to focus on waste and climate change. The Group has, within commercial constraints, taken steps to reduce waste and in particular has reduced consumption of energy and $CO_2$ emissions per square metre over last year. The Group will continue these initiatives where commercially possible.

The Group's social policy addresses the diversity of its workforce, and safety and ethical requirements for suppliers.

People are a key asset to the business. The Group has developed policies for recruitment, training and development of personnel which are contained in comprehensive staff handbooks. The business is committed to achieving excellence in the areas of health, safety, welfare, fire prevention and protection of the working environment and has therefore adopted policies aimed at minimising risks in the Group's activities to ensure that they do not harm employees, customers or the general public, all of whose interests are regarded as critical to business success.

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

The Group continues to invest in improving the health, safety and well-being of its employees. A major health and safety programme has been implemented throughout the Group, with increased training in NEXT Distribution and improved communication between staff and management. Increased resources have been devoted to the promotion of health and safety matters during the year and the resulting policy has been reviewed by the Board. The directors consider that the Board has complied with the five action points set out in the Health and Safety Commission's guidance document 'Directors Responsibilities for Health and Safety' published in July 2001.

The Group's ethical policy is extended to its suppliers. NEXT Brand introduced a supplier Code of Practice in 1998 in respect of working conditions, including minimum compliance standards for child labour, environmental protection, wages and other issues. A team of dedicated auditors, based in the UK and overseas, work exclusively to inform, monitor and improve supplier compliance to the Code of Practice. In 2002 the Group became a member of the Ethical Trading Initiative in addition to its commitment to its own Code of Practice.

The Group has a well established corporate charity and sponsorship programme, donating time, funding and resources to a wide portfolio of local and national charities. A committee made up of employee representatives meets regularly to ensure that a diverse range of charitable causes are supported.

# DIRECTORS' REMUNERATION REPORT

This report contains the information required by the Companies Act 1985 and the relevant parts of the Listing Rules of the UK Listing Authority and Schedule B to the Combined Code on Corporate Governance. The Board of Directors report that the Company has complied with these regulations throughout the year under review.

**Information not subject to audit**

**The Remuneration Committee**

The Remuneration Committee determines the remuneration of the Group's executive directors. The members of the Committee who have served during the year are listed in this Annual Report. They are independent non-executive directors of the Company and have no personal financial interest (other than as shareholders) in the matters addressed by the Committee and have no conflicts of interest arising from cross-directorships. Mr R J O Barton was appointed Chairman of the Committee on 18 July 2002.

**Remuneration policy**

It is the objective of the Committee to reward directors competitively. It is the practice to review the remuneration of directors on the same basis as any other employee of the Company and this takes into account a review of the performance of the individual and of the business. A remuneration review is carried out by the Committee at least annually. The other factors taken into account by the Committee in setting remuneration levels include the experience and responsibility of the individuals concerned. The Remuneration Committee has appointed Monks Partnership to provide independent advice on directors' and senior executives' remuneration. The parent company of Monks Partnership, PricewaterhouseCoopers have provided other services to the Group during the year, principally tax advice.

The components of the Group's remuneration packages are as follows:

**Salary**

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

**Annual performance related bonus**

The executive directors, except Mr D C Jones, participate in an annual performance related bonus scheme which is based on a formula measuring the performance of the business. The performance measure is principally earnings per share before tax, which must increase by RPI and 2% prior to any bonus becoming payable. The formula has been determined by the Committee and includes an upper limit of 50% of salary.

**Long term incentive plan**

A long term incentive plan was introduced for executive directors and senior executives in 1997 following approval by shareholders at the Annual General Meeting. The plan was renewed in 2002 as part of the capital reconstruction. Each year appropriate targets relating to the performance of the Group over the next three years, the performance period, are set. Performance is measured by comparing Total Shareholder Return against approximately 20 other listed retail companies.

The comparator group of companies for the three year performance period ended January 2003 was as follows:

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

Companies are only removed from the comparator group if they become delisted. The Committee determines which new companies are to be added. Changes to the comparator group are only made at the commencement of any three year performance period.

The same comparator group is to be used for the performance period ending January 2004. JJB Sports has been added for the periods to January 2005 and 2006. Arcadia has been removed for the period to January 2006 following that company's delisting and is being replaced by Signet.

# DIRECTORS' REMUNERATION REPORT

The Remuneration Committee considers that the comparator group consists of companies which are most comparable to NEXT plc in size or nature of their business. The Committee believe that comparison against a group consisting of 20 retail companies is more likely to reflect the Group's relative performance and minimise disproportionate factors, thereby resulting in appropriate awards being made to directors and senior management.

A graph below shows the relative Total Shareholder Return of the Group over a five year period when compared to the FTSE All Share index and FTSE General Retailers index. The indices chosen for comparison demonstrate the Group's Total Shareholder Return in comparison to the average for a wide all-share index and against other companies in the same sector.

**NEXT plc Performance Chart 1998-2003**
**Total Shareholder Return**

Under the rules of the plan the maximum award possible for each performance period is 100% of basic salary, however, the Committee has restricted the maximum award possible to 70% of basic salary for all performance periods commencing prior to January 2003. For performance more than one percentage point below the median ranking company no award will be made. For performance within one percentage point of the median the entitlement will be 30% of the maximum award. For performance above the median the entitlement will rise, with the maximum award being earned for performance in the upper quartile of the comparator group. No entitlements will be earned unless the earnings per share of the Company has increased by at least the increase in the Retail Price Index over the period.

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

The Company has discretion as to whether entitlements earned are payable in NEXT plc shares or cash and has allowed participants the choice. Entitlements earned will not be pensionable and will be based on salary and share price at the start of the performance period. Individuals may not be included in the plan and receive grants under the NEXT Group 2002 Share Option Scheme in the same year.

**Management share options: NEXT Group 2002 Share Option Scheme**

The management share option scheme was first established in 1984 and was renewed in 1995 by shareholder approval at the Annual General Meeting. The scheme was further renewed in 2002 as part of the capital reconstruction. The scheme provides for options over shares, exercisable between three and ten years following their grant, to be allocated to Group employees at the discretion of the Board of Directors. The total number of options which can be granted are subject to certain limits.

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

No options were granted to directors or changes made to existing entitlements in the year under review. Employees may not receive option grants under the scheme and be included in the long term incentive plan in the same year.

**Sharesave options: NEXT Group 2002 Sharesave Scheme**

The Company's Sharesave option scheme was renewed in 2000 by shareholder approval at the Annual General Meeting. The scheme was further renewed in 2002 as part of the capital reconstruction. Invitations to participate are generally issued annually to all employees.

# DIRECTORS' REMUNERATION REPORT

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

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

**Group pension scheme**

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

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

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

**Defined contribution section**

Employees of the Group can join a defined contribution section of the scheme. Members elect to pay either 3% or 5% of their pensionable earnings which is matched by the Company. For death prior to retirement, a lump sum of three times the member's basic salary at the previous 1 April is payable along with the current value of the member's fund, subject to Inland Revenue limits.

**Defined benefit section**

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

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

For all current scheme members basic pay, overtime and annual performance bonus are included in calculating pensionable earnings but no other items of remuneration are taken into account. The inclusion of annual performance bonus in pensionable earnings is limited to a maximum of 35% of an employee's annual salary in any year. The inclusion of bonus in pensionable earnings has been the practice for many years and is appropriate for NEXT where a significant element of employee earnings is dependent on productivity or profit performance. The Remuneration Committee believe that the Company should continue with established precedent.

Members contribute 3% or 5% of pensionable earnings, whilst the Company's regular cost contribution rate is 12.5% of pensionable earnings. The most recent actuarial valuation of the scheme's financial position was undertaken as at 31 March 2002 and concluded that the scheme had a 2% deficit of assets compared to actuarial liabilities. The Company made contributions at a rate of 10% of pensionable earnings up to April 2002 when the rate was increased to 12.3%. The rate has been a further increased to 12.5% from 1 February 2003.

Members who joined the scheme after May 1989 and before October 2000 are subject to the Inland Revenue salary cap for approved pension schemes which is set at £97,200 per annum for 2002/2003. Members subject to the cap may be provided with appropriate benefits through an unfunded, unapproved arrangement in relation to that part of their earnings which exceeds the cap. The relevant members contribute towards the additional cost of providing these benefits by paying 5% of pensionable earnings in excess of the cap.

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

# DIRECTORS' REMUNERATION REPORT

**Notice periods**

Each of the executive directors, except Mr D C Jones, has a rolling service contract which is terminable by the Group on giving two years notice. The Committee considers that notice periods of two years are reasonable and in the interests of all parties to attract and retain high calibre directors. Mr Jones has a rolling service contract with a one year notice period which became effective on 16 May 2002 on Mr Jones assuming the duties of Chairman on a part-time basis. All directors' service contracts were renewed on 3 October 2002 as part of the capital reconstruction. The Committee will ensure that in the event of any termination payment being made to a director that full account will be taken of that director's duty to mitigate any loss and where appropriate the Committee may seek independent professional advice prior to authorising such payment.

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

**Other benefits**

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

**Non-executive directors**

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

**Information subject to audit**

| Directors' remuneration £'000 | Salary/fee | | Performance related bonus | | Benefits | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| **Executive directors** | | | | | | | | |
| D C Jones | **308** | 600 | **–** | 300 | **35** | 21 | **343** | 921 |
| S A Wolfson | **450** | 350 | **216** | 175 | **26** | 20 | **692** | 545 |
| C E Angelides | **300** | 256 | **144** | 128 | **21** | 15 | **465** | 399 |
| D W Keens | **300** | 283 | **204** | 141 | **27** | 13 | **531** | 437 |
| A J Varley | **250** | 232 | **120** | 116 | **25** | 18 | **395** | 366 |
| **Non-executive directors** | | | | | | | | |
| Sir Brian Pitman | **50** | 150 | **–** | – | **–** | – | **50** | 150 |
| R J O Barton | **30** | – | **–** | – | **–** | – | **30** | – |
| J A Burdus | **28** | 25 | **–** | – | **–** | – | **28** | 25 |
| A C Mitchell-Innes | **48** | 30 | **–** | – | **–** | – | **48** | 30 |
| D N D Netherton | **35** | 30 | **–** | – | **–** | – | **35** | 30 |
| Lord A S Grabiner | **13** | – | **–** | – | **–** | – | **13** | – |
| **Total** | **1,812** | 1,956 | **684** | 860 | **134** | 87 | **2,630** | 2,903 |

All executive directors were members of the Board throughout the two year period covered by the table above with the exception of Mr R J O Barton who was appointed on 15 February 2002, Sir Brian Pitman who retired on 16 May 2002 and Lord Grabiner who was appointed on 16 May 2002 and resigned on 31 October 2002.

Mr S A Wolfson was the highest paid director in the year (2002: Mr D C Jones) after taking account of gains on exercise of share options of £nil (2002: £7,093) and the long term incentive plan. Mr D W Keens' bonus above includes £60,000 in respect of the capital reconstruction and his benefits include a £3,243 allowance chargeable to UK tax. Mr A C Mitchell-Innes is also a director and the Chairman of NEXT Pension Trustees Limited, the Trustee of the NEXT Group Pension Plan, for which in addition to the above he received a fee of £17,500 (2002: £15,000). Additionally the Company paid a pension to a former director of the Company of £29,597 (2002: £29,102) in the year under the unfunded, unapproved arrangement.

**Long term incentive plan**

Estimated monetary values were included in the January 2002 Remuneration Report for the three year performance plan which matured at that date based on a share price of 988p on 18 March 2002. Awards were made subsequent to the Report on 27 March 2002 when the share price was 1079.5p. Adjustments to the estimated monetary value together with the final award have, therefore, been included in the table below.

# DIRECTORS' REMUNERATION REPORT

A further three year performance period of the plan matured in January 2003. The Total Shareholder Return of the Company over this period ranked between fifth and sixth when compared to the group of 20 other listed retail companies. Accordingly an award of 97.8% of the maximum (equivalent to 68.5% of basic salary) is expected to be made to the participants in the plan which is payable in NEXT plc shares or cash, at the Company's discretion. The awards will be made during 2003 and an estimated monetary value is shown below based on the share price of 822p on 24 March 2003. Awards to the executive directors would be as follows:

| | **January 2003** | | January 2002 | |
|---|---|---|---|---|
| | **Actual no. of shares** | **Estimated monetary value £000** | Adjustment to 2002 estimate £000 | Final monetary value £000 |
| D C Jones | **67,690** | **556** | 70 | 824 |
| S A Wolfson | **33,846** | **278** | 28 | 337 |
| C E Angelides | **25,230** | **207** | 23 | 277 |
| D W Keens | **33,076** | **272** | 32 | 375 |
| A J Varley | **26,461** | **218** | 26 | 300 |
| | **186,303** | **1,531** | 179 | 2,113 |

The performance periods of the annual long term incentive plans which mature in January 2004 and 2005 respectively are not yet complete and no entitlement has yet been earned. A charge of £3,416,000 (2002: £4,150,000) has been made in the accounts in respect of the estimate of the amount for awards relating to the year, of which approximately £1,563,000 (2002: £2,281,000) related to the executive directors.

The directors held the following provisional maximum awards over shares on the long term incentive plan for which the performance period was not completed as at 1 February 2003.

| | Maximum award for performance period | |
|---|---|---|
| | No. of shares to January 2004 | No. of shares to January 2005 |
| D C Jones | – | – |
| S A Wolfson | 31,877 | 34,370 |
| C E Angelides | 21,130 | 22,913 |
| D W Keens | 25,774 | 22,913 |
| A J Varley | 21,130 | 19,094 |
| | 99,911 | 99,290 |

The provisional maximum awards for the performance period to January 2005 were allocated during the year. There have been no other changes to awards under the long term incentive plan during the year.

**Directors' pension entitlements**

All executive directors, except Mr D C Jones, are members of the NEXT Group Pension Plan. Directors and some senior managers receive an enhancement from the Plan, increasing the accrual of their retirement benefit up to two thirds of their final pensionable earnings on completion of 20 years pensionable service at age 60 for members who joined before 1 October 2000. The lump sum payable on death in service for directors and some senior managers is enhanced to four times pensionable salary. In the case of earnings over £100,000 per annum, final pensionable earnings are based on an average of the best consecutive 36 or more months earnings in the ten years prior to retirement.

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

| | **Age at 1 February 2003** | **Years of pensionable service** | **Accrued annual pension £'000** | **Increase in accrued annual pension £'000** | **Transfer value of accrued annual pension 2003 £'000** | **2002 £'000** | **Increase in transfer value less director's contributions £'000** |
|---|---|---|---|---|---|---|---|
| S A Wolfson | 35 | 8 | 79 | 24 | 420 | 289 | 117 |
| C E Angelides | 39 | 10 | 67 | 11 | 452 | 372 | 65 |
| D W Keens | 49 | 16 | 157 | 18 | 1,516 | 1,417 | 79 |
| A J Varley | 52 | 19 | 149 | 19 | 1,570 | 1,495 | 58 |

Years of pensionable service shown above may include bought in service from the transfer of other pension entitlements into the Plan.

# DIRECTORS' REMUNERATION REPORT

On 31 March 2002 Mr D C Jones left the NEXT Group Pension Plan and transferred his entitlements amounting to £10,166,000 into a personal pension scheme on 17 April 2002. The transfer value represented an increase of £107,000 over the value at January 2002. Contributions of £1,200 were made by the Company to his personal pension scheme in the year.

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

**Directors' interests**

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

| | **Ordinary shares of 10p each** | | **Options over ordinary shares of 10p each** | | | |
|---|---|---|---|---|---|---|
| | **2003 No. of shares** | 2002 No. of shares | **2003 No. of shares** | **2003 Average exercise price (p)** | 2002 No. of shares | 2002 Average exercise price (p) |
| D C Jones | **870,017** | 696,935 | – | – | 1,472 | 506 |
| S A Wolfson | **1,823,384** | 1,723,384 | **62,340** | **414** | 62,340 | 414 |
| C E Angelides | **36,863** | 7,163 | **53,107** | **441** | 53,107 | 441 |
| R J O Barton | **2,000** | – | – | – | – | – |
| J A Burdus | **1,000** | 1,000 | – | – | – | – |
| D W Keens | **241,500** | 211,000 | **1,690** | **543** | 53,244 | 530 |
| A C Mitchell-Innes | **23,000** | 22,500 | – | – | – | – |
| D N D Netherton | **5,498** | 5,498 | – | – | – | – |
| A J Varley | **110,739** | 109,024 | **1,534** | **618** | 3,006 | 563 |

In addition the executive directors are (together with other employees) considered to be discretionary beneficiaries under the Group's ESOP Trust and, as such, were each treated as being interested in 7,470,435 shares owned by the Trust at 1 February 2003.

No director held any share option with an option price above the market price on 1 February 2003. Share options exercised by directors during the year were as follows:

| | | **Options exercised** | | | |
|---|---|---|---|---|---|
| | Option type | No. of shares | Exercise price (p) | Market price (p) | Date of exercise |
| D C Jones | Sharesave | 1,472 | 506 | 826 | 5 August 2002 |
| D W Keens – | Management | 50,000 | 530 | 760 | 30 January 2003 |
| – | Sharesave | 1,554 | 506 | 826 | 5 August 2002 |
| A J Varley | Sharesave | 1,472 | 506 | 826 | 5 August 2002 |

The total value of options exercised, being the excess of market price over the exercise price on the respective dates of exercise, was £129,394 (2002: £165,459). The market price of shares at 1 February 2003 was 760p and the range during the year then ended was 717p to 1096.5p. Options expire at various dates up to June 2007.

There have been no changes to directors' interests in the shares of the Company from the end of the year to 24 March 2003 except for the granting of 974 Sharesave options to Mr D W Keens and 530 to Mr A J Varley at a price of 620p per share on 4 February 2003. Full details of directors' interests in the shares and share options of the Company are contained in the Register of Directors' Interests which is open to inspection.

On behalf of the Board

**John Barton**
**Chairman of the Remuneration Committee**

**27 March 2003**

# INDEPENDENT AUDITORS' REPORT

**To the shareholders of NEXT plc**

**Accounts for the year ended 1 February 2003**

We have audited the Group's accounts for the year ended 1 February 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Group and Company Balance Sheets, Consolidated Cash Flow Statement, Accounting Policies, the related notes 1 to 38 and Group Companies. The accounts have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities within the Corporate Governance Statement.

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

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

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

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

**Basis of audit opinion**

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

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

**Opinion**

In our opinion

- the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 1 February 2003 and of the profit of the Group for the year then ended; and
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

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

**Birmingham**
**27 March 2003**

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

| For the financial year ended 1 February | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| **Turnover** | 2 | **2,202.6** | 1,871.7 |
| **Profit before interest** | 3 | **301.5** | 258.6 |
| Net interest (payable)/receivable | 5 | **(0.3)** | 7.2 |
| **Profit on ordinary activities before taxation** | | **301.2** | 265.8 |
| Taxation on profit on ordinary activities | 6 | **(90.7)** | (76.0) |
| **Profit on ordinary activities after taxation** | | **210.5** | 189.8 |
| Dividends | 8 | **(86.0)** | (89.0) |
| **Profit for the year transferred to reserves** | 22 | **124.5** | 100.8 |
| **Earnings per share** | 9 | **68.7p** | 58.1p |
| **Diluted earnings per share** | 9 | **68.1p** | 57.3p |

# CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| For the financial year ended 1 February | | 2003 £m | 2002 £m |
|---|---|---|---|
| Profit attributable to members of the parent company | | **210.5** | 189.8 |
| Exchange difference on translation of net assets of subsidiary undertakings | | **(4.6)** | 0.2 |
| **Total recognised gains and losses relating to the year** | 23 | **205.9** | 190.0 |

# GROUP AND COMPANY BALANCE SHEETS

| As at 1 February | Notes | Group 2003 £m | Group 2002 £m | Company 2003 £m |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Goodwill | 10 | **31.0** | – | – |
| Tangible assets | 11 | **323.1** | 296.5 | – |
| Investments | 12 | **0.5** | 0.2 | 2,477.7 |
| Investment in own shares | 13 | **47.0** | 37.9 | – |
| | | **401.6** | 334.6 | 2,477.7 |
| **Current assets** | | | | |
| Property development stocks | 14 | **9.1** | 9.1 | – |
| Stocks | 15 | **234.9** | 165.6 | – |
| Debtors | 16 | **318.1** | 278.6 | – |
| Cash at bank and in hand | | **32.6** | 201.4 | 1.1 |
| | | **594.7** | 654.7 | 1.1 |
| **Current liabilities** | | | | |
| Creditors: amounts falling due within one year | 17 | **664.9** | 403.2 | 150.0 |
| **Net current (liabilities)/assets** | | **(70.2)** | 251.5 | (148.9) |
| **Total assets less current liabilities** | | **331.4** | 586.1 | 2,328.8 |
| Creditors: amounts falling due after more than one year | 18 | **37.0** | 20.4 | – |
| Provision for liabilities and charges | 19 | **19.3** | 18.8 | – |
| **Net assets** | | **275.1** | 546.9 | 2,328.8 |
| **Capital and reserves** | | | | |
| Called up share capital | 21 | **28.7** | 33.1 | 28.7 |
| Share premium account | 22 | **–** | 3.8 | – |
| Capital redemption reserve | 22 | **1.2** | 5.4 | 1.2 |
| Revaluation reserve | 22 | **14.8** | 15.2 | – |
| Other reserves | 22 | **(1,448.9)** | (0.7) | 985.2 |
| Profit and loss account | 22 | **1,679.3** | 490.1 | 1,313.7 |
| **Shareholders' funds** | 23 | **275.1** | 546.9 | 2,328.8 |

Approved by the Board on 27 March 2003

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

# CONSOLIDATED CASH FLOW STATEMENT

| For the financial year ended 1 February | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| **Net cash inflow from operating activities** | 25 | **314.9** | 363.8 |
| **Dividends from associates** | | **–** | 1.4 |
| **Returns on investments and servicing of finance** | | | |
| Interest (paid)/received | | **(1.1)** | 6.3 |
| **Taxation** | | | |
| UK corporation tax paid | | **(90.8)** | (71.4) |
| UK corporation tax overpayment received | | **4.0** | 14.8 |
| Overseas tax paid | | **(3.4)** | (3.2) |
| | | **(90.2)** | (59.8) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | **(86.3)** | (72.8) |
| Proceeds from disposal of fixed assets | | **3.1** | 3.0 |
| Purchase of own shares by ESOP | | **(29.6)** | (25.4) |
| Proceeds from disposal of shares by ESOP | | **12.3** | 18.9 |
| | | **(100.5)** | (76.3) |
| **Acquisitions and disposals** | | | |
| Disposal of subsidiary undertakings | 26 | **(1.2)** | – |
| Purchase of subsidiary undertakings | 27 | **(24.6)** | – |
| | | **(25.8)** | – |
| **Equity dividends paid** | | **(88.4)** | (81.9) |
| **Cash inflow before management of liquid resources and financing** | | **8.9** | 153.5 |
| **Management of liquid resources** | 28 | **152.8** | (75.1) |
| **Financing** | | | |
| Issue of new preference shares | | **0.1** | – |
| Company shares purchased for cancellation | | **(391.8)** | (53.8) |
| Repayments of capital element of finance leases | | **–** | (0.1) |
| Unsecured bank loans | | **210.0** | – |
| | | **(181.7)** | (53.9) |
| **(Decrease)/increase in cash in the year** | | **(20.0)** | 24.5 |
| Reconciliation of net cash flow to movement in net (debt)/funds | | | |
| (Decrease)/increase in cash in the year | | **(20.0)** | 24.5 |
| Cash (realised from reduction)/deposited in liquid resources | | **(152.8)** | 75.1 |
| Increase in cash from unsecured bank loan | | **(210.0)** | – |
| Repayments of capital element of finance leases | | **–** | 0.1 |
| **Changes in net funds resulting from cash flows** | 29 | **(382.8)** | 99.7 |
| **Net funds at January 2002** | 29 | **194.0** | 94.3 |
| **Net (debt)/funds at January 2003** | 29 | **(188.8)** | 194.0 |

# ACCOUNTING POLICIES

**Accounting convention**

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

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

**Basis of consolidation**

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

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

The Group accounts include the appropriate share of the results and net assets of all associated undertakings using the equity method and based upon either audited accounts or management accounts to January 2003.

**Goodwill**

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

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

**Tangible fixed assets**

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

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

The depreciation rates generally applicable are summarised as follows:

| | |
|---|---|
| Freehold and long leasehold buildings | 2.0% |
| Plant, shop fronts and retail fittings in the high street retailing business | 16.7%-50.0% |
| Plant, fixtures and fittings, computer equipment, motor vehicles and warehouse equipment | 6.67%-50.0% |
| Leasehold improvements | over the period of the lease |

**Investments**

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

**Investment in own shares**

Investment in own shares held by the ESOP is included as a fixed asset and is shown at cost less any provision to reduce the shares to estimated realisable value on issue to Trust beneficiaries. The difference between cost and estimated realisable value is charged to the profit and loss account over the period between the date of the share option grant and its first available exercise date.

**Property development stock**

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

# ACCOUNTING POLICIES

**Stock**

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

**Debtors**

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

**Deferred tax**

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

**Foreign currencies**

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

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

**Financial instruments**

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

**Pension cost**

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

**Operating leases**

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

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

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

# NOTES TO THE ACCOUNTS

**1 Basis of accounting**

The current holding company was incorporated on 9 April 2002. On 22 November 2002 it acquired 100% of the issued share capital of NEXT plc following implementation of a Scheme of Arrangement under section 425 of the Companies Act 1985. The Scheme of Arrangement involved the issue of one new share in the current holding company for one existing share in NEXT plc. This group reconstruction has been accounted for using merger accounting principles since the new shareholders of the Company are the same as the former shareholders and the rights of each shareholder, relative to the others, are unchanged.

The consolidated accounts are presented as if the Scheme of Arrangement had been effective on 27 January 2002 except for the effect of the capital restructure and subsequent reduction of capital which took place on 22 November 2002. The consolidated profit and loss account combines the results of the Group for the 53 week period ended 1 February 2003 with those of the current holding company for the period since its incorporation to 1 February 2003. Further details of the Scheme of Arrangement can be found in Note 21 to the accounts.

**2 Segmental information**

The results for the year are for the 53 weeks to 1 February 2003 (last year 52 weeks to 26 January 2002) with the exception of Ventura and certain other activities which relate to the year to 31 January 2003.

Turnover represents the invoiced amount of goods sold and services provided (stated net of value added tax).

| By business sector: | **Turnover** | | **Operating profit** | | **Net assets** | |
|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | **£m** | £m | **£m** | £m | **£m** | £m |
| NEXT Retail | **1,579.7** | 1,359.7 | | | | |
| NEXT Directory | **471.7** | 362.2 | | | | |
| NEXT Brand | **2,051.4** | 1,721.9 | **279.0** | 237.4 | **81.8** | 303.8 |
| NEXT Franchise | **22.7** | 19.1 | **4.4** | 3.7 | **17.0** | (3.1) |
| Ventura | **97.4** | 101.9 | **11.2** | 13.0 | **36.0** | 51.3 |
| Other activities | **31.1** | 28.8 | **6.9** | 4.5 | **140.3** | 194.9 |
| | **2,202.6** | 1,871.7 | **301.5** | 258.6 | **275.1** | 546.9 |
| By geographical destination: | | | | | | |
| United Kingdom | **2,131.4** | 1,808.8 | **278.8** | 241.6 | **209.6** | 496.6 |
| Rest of Europe | **49.7** | 44.5 | **1.2** | 0.7 | **7.6** | 2.8 |
| North America | **–** | – | **0.1** | 0.5 | **–** | (2.4) |
| Middle East | **13.6** | 11.6 | **2.4** | 2.1 | **–** | – |
| Asia | **5.5** | 4.2 | **18.9** | 13.9 | **57.9** | 49.7 |
| Australasia | **2.4** | 2.6 | **0.1** | (0.2) | **–** | 0.2 |
| | **2,202.6** | 1,871.7 | **301.5** | 258.6 | **275.1** | 546.9 |

Additional management information in respect of the analysis of operating profit between NEXT Retail and NEXT Directory is contained in the Chief Executive's Review. No allocation of net assets has been made between NEXT Retail and NEXT Directory as the common use of assets by the two business sectors means that this is not appropriate. The allocation of net assets in the prior year has been restated to include interest bearing net assets within the business sectors.

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

# NOTES TO THE ACCOUNTS

## 3 Profit before interest

| | 2003 £m | 2002 £m |
|---|---|---|
| Turnover | **2,202.6** | 1,871.7 |
| Cost of sales | **(1,548.1)** | (1,308.1) |
| Gross profit | **654.5** | 563.6 |
| Distribution costs | **(145.0)** | (116.7) |
| Administrative expenses | **(210.7)** | (189.5) |
| Group operating profit | **298.8** | 257.4 |
| Share of operating profit in associated undertakings | **2.7** | 1.2 |
| Profit before interest | **301.5** | 258.6 |

Businesses acquired during the year are included above and contributed £1.4m to turnover and £0.3m to operating profit in the period following acquisition. Further details are given in Note 27.

| | 2003 £m | 2002 £m |
|---|---|---|
| Profit before interest is stated after charging/(crediting): | | |
| Capital reconstruction expenses | **3.0** | – |
| Depreciation on assets | | |
| Owned | **59.1** | 54.1 |
| Leased | – | 0.3 |
| Amortisation of goodwill | **1.6** | – |
| Operating lease rentals | **102.3** | 89.2 |
| Rent receivable | **(8.3)** | (6.8) |
| Auditors' remuneration | **0.3** | 0.2 |

Non-audit services provided by Ernst & Young LLP with fees amounting to £610,000 (2002: £32,000) were wholly attributable to work that they were best placed to perform through their position as auditor, including further assurance services in respect of the capital reconstruction (£348,000) and due diligence work on business acquisitions (£220,000).

## 4 Staff costs

| | 2003 £m | 2002 £m |
|---|---|---|
| Wages and salaries | **325.4** | 300.7 |
| Social security costs | **19.7** | 18.8 |
| Other pension costs (Note 37) | **11.2** | 10.0 |
| | **356.3** | 329.5 |

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

| | 2003 £m | 2002 £m |
|---|---|---|
| NEXT Brand | **284.1** | 264.4 |
| Ventura | **48.4** | 45.7 |
| Other activities | **23.8** | 19.4 |
| | **356.3** | 329.5 |

# NOTES TO THE ACCOUNTS

**4 Staff costs (continued)**

| | Average employees | | Full time equivalents | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | **Number** | Number | **Number** | Number |
| NEXT Brand | **32,580** | 29,691 | **17,400** | 14,723 |
| Ventura | **3,494** | 3,059 | **3,052** | 2,680 |
| Other activities | **2,600** | 440 | **2,595** | 435 |
| | **38,674** | 33,190 | **23,047** | 17,838 |

**5 Net interest (payable)/receivable**

| | **2003** | 2002 |
|---|---|---|
| | **£m** | £m |
| Bank and financial instruments | **0.1** | 4.8 |
| Other interest | **1.1** | 2.9 |
| Interest receivable | **1.2** | 7.7 |
| Interest payable | **(1.5)** | (0.5) |
| Net interest (payable)/receivable | **(0.3)** | 7.2 |

Other interest receivable includes £0.3m (2002: £2.5m) in respect of the settlement of prior year taxation items.

**6 Taxation on profit on ordinary activities**

| | **2003** | 2002 |
|---|---|---|
| The taxation charge based on the results for the year is made up as follows: | **£m** | £m |
| Current tax: | | |
| UK corporation tax on profits of the period | **91.4** | 84.7 |
| Adjustments in respect of previous years | **(3.9)** | (18.5) |
| | **87.5** | 66.2 |
| Overseas tax | **2.6** | 0.9 |
| Tax attributable to associated undertakings | **0.1** | 0.1 |
| Total current tax | **90.2** | 67.2 |
| Deferred tax: | | |
| Origination and reversal of timing differences | **0.5** | (2.8) |
| Adoption of FRS 19 – prior year liabilities | **–** | 11.6 |
| Total deferred tax (Note 20) | **0.5** | 8.8 |
| Taxation on profit on ordinary activities | **90.7** | 76.0 |

In the prior year, following the adoption of FRS 19 Deferred Taxation, the tax charge for the year included prior year deferred taxation of £11.6m. No prior year adjustment was made as, in the opinion of the directors, the amount was not material to require the restatement of prior years' accounts.

# NOTES TO THE ACCOUNTS

**6 Taxation on profit on ordinary activities (continued)**

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

| | **2003** | 2002 |
|---|---|---|
| | **%** | % |
| UK corporation tax rate | **30.0** | 30.0 |
| Expenses not deductible for tax purposes | **2.3** | 2.4 |
| Origination and reversal of timing differences | **0.2** | 1.1 |
| Overseas tax differentials | **(1.3)** | (1.2) |
| Prior year corporation tax | **(1.3)** | (7.0) |
| Effective current tax rate on ordinary activities | **29.9** | 25.3 |
| Deferred tax | **0.2** | 3.3 |
| Effective total tax rate on ordinary activities | **30.1** | 28.6 |

**7 Profit on ordinary activities after taxation**

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of the accounts. The current holding company made neither profit nor loss on ordinary activities after taxation in the period.

**8 Dividends**

| | **2003** | 2002 |
|---|---|---|
| | **£m** | £m |
| Interim dividend 10.0p (2002: 9.0p) | **29.8** | 29.1 |
| Final dividend 21.0p (2002: 18.5p) | **57.4** | 59.9 |
| Total dividend 31.0p per share (2002: 27.5p) | **87.2** | 89.0 |
| Adjustment to 2002 final dividend on shares repurchased | **(1.2)** | - |
| | **86.0** | 89.0 |

**9 Earnings per share**

The calculation of earnings per share is based on £210.5m (2002: £189.8m) being the profit for the year after taxation and 306.2m ordinary shares of 10p each (2002: 326.8m), being the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOP during the year.

The calculation of diluted earnings per share is based on £210.5m (2002: £189.8m) being the profit for the year after taxation and 308.9m ordinary shares of 10p each (2002: 331.3m) being the weighted average number of shares used for the calculation of earnings per share above increased by the dilutive effect of potential ordinary shares from employee share option schemes of 2.7m shares (2002: 4.5m shares).

# NOTES TO THE ACCOUNTS

## 10 Goodwill

| | Group |
|---|---|
| **Cost** | **£m** |
| At January 2002 | – |
| Additions (Note 27) | **32.6** |
| **At January 2003** | **32.6** |
| **Amortisation** | |
| At January 2002 | – |
| Provided during the year | **1.6** |
| **At January 2003** | **1.6** |
| **Net book value** | |
| **At January 2003** | **31.0** |
| At January 2002 | – |

## 11 Tangible assets

| **The Group** | Freehold property | Leasehold property Long | Leasehold property Short | Plant and fittings | **Total** |
|---|---|---|---|---|---|
| **Cost or valuation** | £m | £m | £m | £m | **£m** |
| At January 2002 | | | | | |
| At cost | 62.8 | 7.9 | 8.1 | 397.9 | **476.7** |
| At valuation | 16.0 | 3.6 | – | – | **19.6** |
| | 78.8 | 11.5 | 8.1 | 397.9 | **496.3** |
| Exchange movement | – | – | – | (0.3) | **(0.3)** |
| Additions | 4.2 | – | – | 82.1 | **86.3** |
| Acquisition of subsidiaries | – | – | – | 3.2 | **3.2** |
| Disposals | (1.4) | – | (0.4) | (26.2) | **(28.0)** |
| Disposal of subsidiaries | – | – | – | (1.4) | **(1.4)** |
| **At January 2003** | **81.6** | **11.5** | **7.7** | **455.3** | **556.1** |
| At cost | 67.0 | 7.9 | 7.7 | 455.3 | **537.9** |
| At valuation | 14.6 | 3.6 | – | – | **18.2** |
| **Depreciation** | | | | | |
| At January 2002 | 6.0 | 1.2 | 8.1 | 184.5 | **199.8** |
| Exchange movement | – | – | – | (0.2) | **(0.2)** |
| Provided during the year | 1.8 | 0.2 | – | 57.1 | **59.1** |
| Disposals | (0.3) | – | (0.4) | (24.1) | **(24.8)** |
| Disposal of subsidiaries | – | – | – | (0.9) | **(0.9)** |
| **At January 2003** | **7.5** | **1.4** | **7.7** | **216.4** | **233.0** |
| **Net book value** | | | | | |
| **At January 2003** | **74.1** | **10.1** | – | **238.9** | **323.1** |
| At January 2002 | 72.8 | 10.3 | – | 213.4 | 296.5 |

# NOTES TO THE ACCOUNTS

**11 Tangible assets (continued)**

Certain of the Group's freehold and long leasehold properties were revalued at 25 December 1990 and 31 August 1985 at £16.4m and £1.8m respectively. The Group has elected to follow the transitional arrangements of FRS15 Tangible Fixed Assets in respect to these assets which were revalued prior to implementation of the accounting standard. Accordingly the assets will be carried at valuations which have not been updated.

The historical cost and related accumulated depreciation of property included in the accounts as at January 2003 is as follows:

| | Group | |
|---|---|---|
| | Freehold £m | Long leasehold £m |
| Historical cost | 70.4 | 8.4 |
| Historical accumulated depreciation | (6.8) | (1.2) |
| | 63.6 | 7.2 |

| **12 Investments** | Subsidiary undertakings £m | Associated undertakings £m | **Total £m** |
|---|---|---|---|
| **The Group** | | | |
| **Cost** | | | |
| At January 2002 | – | 0.4 | **0.4** |
| Retained profit | – | 0.3 | **0.3** |
| **At January 2003** | – | **0.7** | **0.7** |
| **Provision** | | | |
| **At January 2002 and January 2003** | – | **0.2** | **0.2** |
| **Net book value** | | | |
| **At January 2003** | – | **0.5** | **0.5** |
| At January 2002 | – | 0.2 | 0.2 |
| ***The Company*** | | | |
| ***Cost*** | | | |
| *On incorporation* | – | – | – |
| *Capital reconstruction* | *2,475.7* | – | ***2,475.7*** |
| *Additions* | *2.0* | – | ***2.0*** |
| ***At January 2003*** | ***2,477.7*** | – | ***2,477.7*** |
| ***Net book value*** | | | |
| ***At January 2003*** | ***2,477.7*** | – | ***2,477.7*** |

# NOTES TO THE ACCOUNTS

## 13 Investment in own shares

| | Group |
|---|---|
| **Cost** | **£m** |
| At January 2002 | **47.0** |
| Additions | **29.6** |
| Issue of shares to Trust beneficiaries | **(17.1)** |
| **At January 2003** | **59.5** |
| **Provision** | |
| At January 2002 | **9.1** |
| Provided during the year | **8.2** |
| Utilised during the year | **(4.8)** |
| **At January 2003** | **12.5** |
| **Net book value** | |
| **At January 2003** | **47.0** |
| At January 2002 | 37.9 |

The Group established the NEXT Employee Share Ownership Plan Trust (the 'ESOP') in 1994 which has an independent professional trustee resident in Jersey. The ESOP is a trust providing for the issue of shares to Group employees, including share issues under share options, at the discretion of the Trustee. At 1 February 2003 the Trustee owned 7,470,435 (2002: 6,978,366) ordinary shares of 10p each in the Company, the market value of which amounted to £56.8m (2002: £66.2m). Details of outstanding share options are shown in Note 21.

The assets, liabilities, income and costs of the ESOP have been incorporated into the accounts of the Group. The anticipated deficit incurred by the ESOP in the year amounting to £8.2m (2002: £8.0m) has been included within operating costs of the Group in the profit and loss account. The total anticipated deficit represents the difference between the cost of shares purchased and their estimated realisable value on issue by the ESOP to Trust beneficiaries. The deficit is charged to the profit and loss account over the period between the date of the share option grant and its first available exercise date. The ordinary shares of 10p each in the Company held by the ESOP at 1 February 2003 have been included in the balance sheet of the Group as a fixed asset at a net book value of £47.0m (2002: £37.9m). The Trustee has waived dividends paid in the year on shares held by the ESOP.

Following this year's capital reconstruction, the Company established the NEXT 2003 Employee Share Ownership Plan Trust (the '2003 ESOP') and it is intended to transfer assets and liabilities from the ESOP in due course. The assets and liabilities of the 2003 ESOP have been incorporated into the accounts of the Company and the Group at 1 February 2003.

## 14 Property development stocks

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **£m** | £m |
| Cost | **11.4** | 11.4 |
| Less provision | **(2.3)** | (2.3) |
| Estimated net realisable value | **9.1** | 9.1 |

The gross cost of property development stocks at 1 February 2003 includes capitalised interest amounting to £0.8m (2002: £0.8m). No interest has been capitalised in the year or in the previous year.

# NOTES TO THE ACCOUNTS

## 15 Stock

| | Group 2003 £m | Group 2002 £m |
|---|---|---|
| Raw materials and work in progress | **4.2** | 0.5 |
| Finished goods and goods for resale | **230.7** | 165.1 |
| | **234.9** | 165.6 |

## 16 Debtors

| | Group 2003 £m | Group 2002 £m |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade and customer debtors | **221.7** | 181.9 |
| Ventura trade and customer debtors | **22.9** | 27.2 |
| Amounts due from associated undertakings | **5.9** | 6.0 |
| Other debtors | **7.9** | 4.7 |
| Prepayments and accrued income | **52.7** | 45.8 |
| | **311.1** | 265.6 |
| Amounts falling due after more than one year: | | |
| Trade and customer debtors | **0.1** | 0.6 |
| Ventura trade and customer debtors | **3.6** | 9.1 |
| Other debtors | **3.3** | 3.3 |
| | **7.0** | 13.0 |
| Total debtors | **318.1** | 278.6 |

## 17 Creditors: amounts falling due within one year

| | Group 2003 £m | Group 2002 £m | Company 2003 £m |
|---|---|---|---|
| Bank overdrafts | **11.4** | 7.4 | – |
| Unsecured bank loans | **210.0** | – | – |
| Trade creditors | **108.0** | 79.8 | – |
| Amounts due to subsidiary undertakings | **–** | – | 91.9 |
| Amounts due to associated undertakings | – | 1.4 | – |
| Corporation tax payable | **48.1** | 48.5 | – |
| Other taxation and social security | **42.0** | 39.5 | – |
| Other creditors and accruals | **187.3** | 166.0 | – |
| Proposed dividend | **58.1** | 60.6 | 58.1 |
| | **664.9** | 403.2 | 150.0 |

Bank loans and overdrafts fall due within one year of the balance sheet date or on demand. The unsecured bank loans were drawn down under a five year club bank revolving credit facility committed until 11 September 2007.

The Group has given indemnities of £28.0m (2002: £24.0m) in favour of various surety companies in respect of bonds given by them to HM Customs & Excise. The Group has also given guarantees of £13.9m (2002: £16.2m) to bankers in respect of the borrowings of certain subsidiary and associated undertakings.

# NOTES TO THE ACCOUNTS

**18 Creditors: amounts falling due after more than one year**

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **£m** | £m |
| Other creditors and accruals | **37.0** | 20.4 |

**19 Provision for liabilities and charges**

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **£m** | £m |
| Vacant property costs | **10.0** | 10.0 |
| Deferred tax (Note 20) | **9.3** | 8.8 |
| | **19.3** | 18.8 |

The movement on the vacant property provision is as follows:

| | Group |
|---|---|
| | **£m** |
| At January 2002 | **10.0** |
| Charged during the year | **0.6** |
| Utilised | **(0.6)** |
| At January 2003 | **10.0** |

**20 Deferred taxation**

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **£m** | £m |
| Accelerated capital allowances | **(20.4)** | (18.1) |
| Other timing differences | **11.1** | 9.3 |
| Deferred taxation (liability)/asset | **(9.3)** | (8.8) |

The movement in the year is as follows:

| | Group |
|---|---|
| | **£m** |
| At January 2002 | **(8.8)** |
| Deferred tax charge | **(0.5)** |
| At January 2003 | **(9.3)** |

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

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | **£m** | £m |
| Property development trading losses | **3.1** | 3.2 |
| Capital losses, net of rolled over gains | **31.4** | 30.7 |
| Total potential deferred tax assets | **34.5** | 33.9 |

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

# NOTES TO THE ACCOUNTS

## 21 Called up share capital

The share capital of the Company and predecessor company is shown below:

| | 2003 '000 | 2002 '000 | 2003 £m | 2002 £m |
|---|---|---|---|---|
| **Authorised** | | | | |
| Ordinary shares of 10p each | **400,500** | 545,000 | **40.1** | 54.5 |
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of 10p each | **286,746** | 330,619 | **28.7** | 33.1 |

The comparative figures relate to NEXT Group Plc (formerly NEXT plc).

**Changes in the period to the authorised share capital of NEXT plc**

The current holding company was incorporated on 9 April 2002 with an authorised share capital of 100,000 ordinary shares of £1 each.

On 26 September 2002 49,998 ordinary shares of £1 each were re-designated as Redeemable Preference Shares of £1 each.

On 3 October 2002 the authorised share capital was increased from £100,000 to £2,000,049,998 by the creation of an additional 1,999,949,998 ordinary shares of £1 each. On the same date 2,000,000,000 ordinary shares of £1 each were converted into 400,000,000 ordinary shares of £5 each.

Following the Scheme of Arrangement under Section 425 of the Companies Act 1985 becoming effective, the nominal value of the authorised share capital was reduced from £5 per share to 10p per share on 26 November 2002.

On 26 November 2002 the 49,998 Redeemable Preference Shares of £1 each were converted into 499,980 ordinary shares of 10p each.

**Changes from 27 January 2002 to 22 November 2002 to the issued share capital of NEXT Group Plc (formerly NEXT plc)**

During the period 17 May 2002 to 18 November 2002 the Company purchased a total of 32,517,863 ordinary shares of 10p each in the market for cancellation, at a cost of £301.8m.

On 22 November 2002 the Company had 298,100,916 ordinary shares of 10p each in issue which were transferred to NEXT plc, the current holding company, as part of the Scheme of Arrangement.

**Changes in the period to the issued share capital of NEXT plc, the current holding company**

Two ordinary shares of £1 each were issued, nil paid, on incorporation on 9 April 2002.

On 26 September 2002 49,998 Redeemable Preference Shares of £1 each were issued, paid up as to one quarter of their nominal value in order to enable the Company to obtain a certificate to commence business under Section 117 of the Companies Act. On the same date eight ordinary shares of £1 each were issued fully paid.

On 3 October 2002 the ten ordinary shares of £1 each then issued, were consolidated into two ordinary shares of £5 each.

Following the Scheme of Arrangement under Section 425 of the Companies Act 1985 becoming effective, on 22 November 2002 the Company issued 298,100,914 ordinary shares of £5 each to shareholders in NEXT Group Plc on the basis of one new share for each existing share. On 26 November 2002 the nominal value of the issued share capital was reduced from £5 per share to 10p per share.

On 25 November 2002 the remaining three quarters nominal value of the 49,998 Redeemable Preference Shares of £1 was paid up and on the same date the shares were redeemed.

During the period 28 November 2002 to 28 January 2003 the Company purchased 11,355,365 of its own ordinary shares of 10p each in the market for cancellation at a cost of £89.9m.

**Share options**

The following options have been granted and remain outstanding at 1 February 2003 in respect of ordinary shares of 10p each in the Company:

| | |
|---|---|
| Number of shares | 8,966,951 (2002: 10,515,691) |
| Prices at which options are exercisable | 189.66p – 1058p |
| Weighted average | 700.76p (2002: 605.67p) |
| Period during which options are exercisable | Up to March 2012 |

# NOTES TO THE ACCOUNTS

## 22 Share capital and reserves

| The Group | Ordinary shares £m | Redeemable preference shares £m | Share premium account £m | Capital redemption reserve £m | Revaluation reserve £m | Other reserves £m | Profit and loss account £m |
|---|---|---|---|---|---|---|---|
| At January 2002 | 33.1 | – | 3.8 | 5.4 | 15.2 | (0.7) | 490.1 |
| Shares purchased for cancellation prior to the capital restructure | (3.3) | – | – | 3.3 | – | – | (301.8) |
| Capital restructure | 1,460.7 | – | (3.8) | (8.7) | – | (1,448.2) | – |
| | 1,490.5 | – | – | – | 15.2 | (1,448.9) | 188.3 |
| New share capital issued | – | 0.1 | – | – | – | – | – |
| Reduction of capital | (1,460.7) | – | – | – | – | – | 1,460.7 |
| Redemption of share capital | – | (0.1) | – | 0.1 | – | – | (0.1) |
| Shares purchased for cancellation after the capital restructure | (1.1) | – | – | 1.1 | – | – | (89.9) |
| Transfer of depreciation on revalued property | – | – | – | – | (0.3) | – | 0.3 |
| Transfer of realised property profits | – | – | – | – | (0.1) | – | 0.1 |
| Exchange movement | – | – | – | – | – | – | (4.6) |
| Profit transferred for the year | – | – | – | – | – | – | 124.5 |
| **At January 2003** | **28.7** | **–** | **–** | **1.2** | **14.8** | **(1,448.9)** | **1,679.3** |

| *The Company* | | | | | | | |
|---|---|---|---|---|---|---|---|
| *New share capital on incorporation* | – | – | – | – | – | – | – |
| *New share capital issued* | – | *0.1* | – | – | – | – | – |
| *New share capital issued on acquisition of NEXT Group Plc* | *1,490.5* | – | – | – | – | *985.2* | – |
| *Redemption of share capital* | – | *(0.1)* | – | *0.1* | – | – | *(0.1)* |
| *Reduction of capital* | *(1,460.7)* | – | – | – | – | – | *1,460.7* |
| *Shares purchased for cancellation* | *(1.1)* | – | – | *1.1* | – | – | *(89.9)* |
| *Loss transferred for the period* | – | – | – | – | – | – | *(57.0)* |
| ***At January 2003*** | ***28.7*** | **–** | **–** | ***1.2*** | **–** | ***985.2*** | ***1,313.7*** |

Other reserves in the consolidated balance sheet represent the reserve created on reduction of share capital through the Scheme of Arrangement under Section 425 of the Companies Act 1985 (£1460.7m) less share premium account (£3.8m) and capital redemption reserve (£8.7m) at the time of capital reconstruction plus the accumulated amount of goodwill arising on acquisition after taking into account subsequent disposals (£0.7m).

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

# NOTES TO THE ACCOUNTS

## 23 Reconciliation of shareholders' funds

| | 2003 £m | 2002 £m |
|---|---|---|
| Total recognised gains and losses (Page 22) | **205.9** | 190.0 |
| Dividends | **(86.0)** | (89.0) |
| Shares purchased for cancellation | **(391.7)** | (53.8) |
| New preference share capital issued | **0.1** | - |
| Preference shares redeemed | **(0.1)** | - |
| Total movement during the year | **(271.8)** | 47.2 |
| Shareholders' funds at January 2002 (Page 23) | **546.9** | 499.7 |
| Shareholders' funds at January 2003 (Page 23) | **275.1** | 546.9 |

## 24 Note of historical cost profits and losses

| | 2003 £m | 2002 £m |
|---|---|---|
| Reported profit on ordinary activities before taxation | **301.2** | 265.8 |
| Realisation of property revaluation profits of previous years | **0.1** | - |
| Difference between historical cost depreciation charge and actual charge calculated on the revalued amount | **0.3** | 0.3 |
| Historical cost profit on ordinary activities before taxation | **301.6** | 266.1 |
| Historical cost profit for the year retained after taxation and dividends | **124.9** | 101.1 |

## 25 Cash flow: reconciliation of operating profit to net cash flow

| | 2003 £m | 2002 £m |
|---|---|---|
| Operating profit before interest | **301.5** | 258.6 |
| Depreciation | **59.1** | 54.4 |
| Amortisation of goodwill | **1.6** | - |
| Loss on disposal of fixed assets | **0.1** | 6.5 |
| Anticipated deficit in ESOP | **8.2** | 8.0 |
| Income from interest in associated undertakings | **(0.4)** | (1.3) |
| Increase in stock | **(62.8)** | (0.7) |
| Increase in debtors | **(39.7)** | (9.2) |
| Increase in creditors | **52.1** | 46.7 |
| Increase in provision for liabilities and charges | - | 0.6 |
| Exchange movement | **(4.8)** | 0.2 |
| Net cash inflow from operating activities | **314.9** | 363.8 |

# NOTES TO THE ACCOUNTS

### 26 Cash flow: disposal of subsidiary undertakings

| | 2003 £m | 2002 £m |
|---|---|---|
| Net assets disposed of: | | |
| Fixed assets | 0.5 | – |
| Stock | 0.1 | – |
| Debtors | 0.8 | – |
| Creditors | (2.6) | – |
| Cash at bank and in hand | – | – |
| | (1.2) | – |
| Satisfied by: | | |
| Cash | (1.2) | – |

On 19 December 2002 the Group disposed of its interest in Callscan Limited and Callscan Australia (Pty) Limited. There was no profit or loss on disposal and no attributable purchased goodwill to be taken account of in calculation of the profit or loss on disposal. The business absorbed £0.3m from the Group's net operational cash flows in the year prior to disposal.

### 27 Cash flow: purchase of subsidiary undertakings

| | 2003 £m | 2002 £m |
|---|---|---|
| Net assets acquired: | | |
| Fixed assets | 3.2 | – |
| Stock | 6.6 | – |
| | 9.8 | – |
| Goodwill arising on acquisition | 32.6 | – |
| | 42.4 | – |
| Satisfied by: | | |
| Cash | 24.6 | – |
| Deferred consideration | 17.8 | – |
| | 42.4 | – |

On 11 July 2002 the Group purchased certain businesses, assets and goodwill engaged in the manufacture and sourcing of garments in Sri Lanka, Turkey and Romania. The purchase, collectively known as NEXT Near East, has been accounted for as an acquisition. No fair value adjustments have been made to the assets acquired or provision made for reorganisation. In connection with the acquisition there will be a further US dollar payment of deferred consideration in 2007 based on the profits of the businesses acquired. The amount has been estimated at £17.8m, included as a creditor falling due after more than one year and will be subject to revised estimates in future years. The acquired businesses had no material effect on the Group's net operational cash flows in the period following acquisition.

### 28 Cash flow: management of liquid resources

| | 2003 £m | 2002 £m |
|---|---|---|
| Cash placed on short term deposits | (173.9) | (605.6) |
| Cash withdrawn from short term deposits | 326.7 | 530.5 |
| Cash inflow/(outflow) from management of liquid resources | 152.8 | (75.1) |

# NOTES TO THE ACCOUNTS

**29 Cash flow: analysis of net (debt)/funds**

| | January 2002 £m | Cash flow £m | **January 2003 £m** |
|---|---|---|---|
| Cash in hand | 41.3 | (16.0) | **25.3** |
| Overnight borrowings | (2.5) | (7.5) | **(10.0)** |
| Overdrafts | (4.9) | 3.5 | **(1.4)** |
| | 33.9 | (20.0) | **13.9** |
| Short term deposits | 160.1 | (152.8) | **7.3** |
| Unsecured bank loans | – | (210.0) | **(210.0)** |
| Total | 194.0 | (382.8) | **(188.8)** |

**30 Financial instruments**

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

**31 Financial instruments: interest rate risk profile**

The interest rate profile of financial assets and liabilities at 1 February 2003 was as follows:

| | | | **2003** | | | 2002 |
|---|---|---|---|---|---|---|
| Financial assets: | **Floating** | **Nil** | **Total** | Floating | Nil | Total |
| Currency | **£m** | **£m** | **£m** | £m | £m | £m |
| Sterling | **23.1** | **1.2** | **24.3** | 196.1 | 1.0 | 197.1 |
| Hong Kong dollar | **8.0** | **0.2** | **8.2** | 6.0 | – | 6.0 |
| US dollar | **2.7** | **0.4** | **3.1** | – | – | – |
| Other | **–** | **0.3** | **0.3** | 1.5 | 0.1 | 1.6 |

Floating rate financial assets comprise Sterling denominated bank deposits and credit balances that accrue interest at rates based on LIBOR and UK bank base rates respectively and Hong Kong dollar denominated bank deposits at rates based on HIBOR, US dollar bank deposits at prime rates and a loan note bearing interest at variable rates.

| | | **2003** | | 2002 |
|---|---|---|---|---|
| Financial liabilities: | **Floating** | **Total** | Floating | Total |
| Currency | **£m** | **£m** | £m | £m |
| Sterling | **221.4** | **221.4** | 6.1 | 6.1 |
| Other | **–** | **–** | 1.3 | 1.3 |

Floating rate financial liabilities principally comprise Sterling denominated bank loans and overdrafts that bear interest at rates based on LIBOR and UK bank base rates respectively.

# NOTES TO THE ACCOUNTS

**32 Financial instruments: foreign currency assets and liabilities**

Foreign currency net monetary assets/(liabilities) at 1 February 2003 were as follows:

| Functional currency of Group operation | **Sterling £m** | **US dollar £m** | **HK dollar £m** | **Euro £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|---|---|
| **2003:** | | | | | | |
| Sterling | **–** | **(17.9)** | **(6.3)** | **(15.7)** | **–** | **(39.9)** |
| US dollar | **(2.4)** | **–** | **–** | **–** | **(0.4)** | **(2.8)** |
| Hong Kong dollar | **2.2** | **(0.9)** | **–** | **–** | **–** | **1.3** |
| | **(0.2)** | **(18.8)** | **(6.3)** | **(15.7)** | **(0.4)** | **(41.4)** |
| 2002: | | | | | | |
| Sterling | – | (7.4) | (0.7) | (5.0) | – | (13.1) |
| Hong Kong dollar | 2.0 | (0.7) | – | – | (0.1) | 1.2 |
| | 2.0 | (8.1) | (0.7) | (5.0) | (0.1) | (11.9) |

**33 Financial instruments: committed borrowing facilities**

The committed facilities available at 1 February 2003 in respect of which all conditions precedent had been met were as follows:

| | **2003 £m** | 2002 £m |
|---|---|---|
| Expiring in one year or less | **–** | 80 |
| Expiring in more than one year, but not more than two years | **–** | 30 |
| Expiring in more than two years, but not more than five years | **250** | – |
| | **250** | 110 |

£40m (2002: £110m) of this facility was not drawn down at 1 February 2003.

# NOTES TO THE ACCOUNTS

## 34 Financial instruments: fair value

The fair values of financial assets and liabilities calculated at market rates at 1 February 2003 were as follows:

| | Notional amount £m | Carrying amount £m | Fair value amount £m |
|---|---|---|---|
| **2003:** | | | |
| Foreign currency forward contracts | **205.2** | – | **(8.7)** |
| Foreign currency option contracts | **378.8** | – | **(13.1)** |
| Short term deposits | – | **7.3** | **7.3** |
| Cash at bank and in hand | – | **25.3** | **25.3** |
| Other debtors falling due after more than one year | – | **3.3** | **3.3** |
| Unsecured bank loans due within one year | – | **(210.0)** | **(210.0)** |
| Other borrowings falling due within one year | – | **(11.4)** | **(11.4)** |
| 2002: | | | |
| Foreign currency forward contracts | 119.2 | – | 3.0 |
| Foreign currency option contracts | 328.2 | – | 3.9 |
| Short term deposits | – | 160.1 | 160.1 |
| Cash at bank and in hand | – | 41.3 | 41.3 |
| Other debtors falling due after more than one year | – | 3.3 | 3.3 |
| Borrowings falling due within one year | – | (7.4) | (7.4) |

The increase in foreign currency contracts is due to general business growth and an increase in purchases denominated in foreign currencies. Fair values have been determined using market quoted rates at the year end date and, where appropriate, cashflows have been discounted to present value using prevailing market interest rates. Market rates as at 1 February 2003 were US dollar 1.64 (2002: 1.41) and Euro 1.53 (2002: 1.63).

The Group does not recognise any accrued but unrealised gains or losses on currency or interest rate instruments until the relevant contract is concluded. Save for £0.6m of unrealised net gains on contracts due to mature after January 2004, all of the unrealised net losses of £21.8m at 1 February 2003 on currency and interest rate instruments are expected to be dealt with in the profit and loss account for the year to January 2004. £6.6m of the unrealised net gains of £6.9m at 26 January 2002 on currency and interest rate instruments were dealt with in the profit and loss account for the year to January 2003.

## 35 Capital commitments

| | 2003 £m | 2002 £m |
|---|---|---|
| Contracted for but not provided in these accounts | **8.6** | 17.1 |

In addition at 1 February 2003 NEXT plc had contracted to purchase 3.1m of its own shares for cancellation at a cost of £23.9m.

## 36 Commitments under operating leases

| | Land and buildings £m | Other £m | 2003 Total £m | 2002 Total £m |
|---|---|---|---|---|
| **The Group** | | | | |
| Commitment expires in year to January 2004 | 4.3 | 1.0 | **5.3** | 6.2 |
| Commitment expires February 2004 to January 2008 | 10.2 | 3.2 | **13.4** | 8.3 |
| Commitment expires beyond January 2008 | 97.4 | – | **97.4** | 83.5 |
| Payments to be made in year to January 2004 | 111.9 | 4.2 | **116.1** | 98.0 |

# NOTES TO THE ACCOUNTS

**37 Pension commitments**

The Group operates a pension scheme in the UK which consists of defined benefit and defined contribution sections. The defined benefit section is a funded arrangement which provides benefits based on final pensionable earnings which are salaries, overtime and annual performance bonuses and was closed to new members on 30 September 2000. The defined contribution section is for all members who joined on or after 1 October 2000 and benefits are based on each individual member's personal account. The scheme has equal pension rights with respect to members of either sex. The assets of the scheme are held in a separate trustee administered fund.

**SSAP 24 Accounting for Pension Costs**

The Group continues to report its pension costs in accordance with SSAP 24 Accounting for Pension Costs. The most recent formal actuarial valuation of the defined benefit section was undertaken by an independent professionally qualified actuary as at 31 March 2002 using the projected unit method. The principal financial assumptions which have the most significant effect on the computation of the pension costs are those related to the rate of return on the investments and the rates of increase in earnings and pensions. These assumptions have been derived from market yields applying at the valuation date. In particular, the investment return used relating to pre-retirement liabilities was two and three quarters percentage points per annum in excess of the assumed rate of increase in earnings and the investment return used relating to post-retirement liabilities was three percentage points per annum in excess of the assumed rate of pension increases. Demographic assumptions have also been taken into account, in particular the general trend in mortality experience.

At 31 March 2002, the market value of the assets of the defined benefit section was £204m representing 98% of the liability for benefits that had accrued to members after allowing for expected future increases in earnings. No surplus has been recognised in the year (2002: £1.7m). The regular pension cost amounted to £9.8m (2002: £10.4m). From 1 April 2002 the Group increased employer contributions to the scheme from 10% to 12.3% and will increase them further to 12.5% with effect from 1 February 2003. Employer contributions of £12.7m (2002: £7.4m) were made in the year including a £2.5m contribution in respect of the deficit on the defined benefit section as at 31 March 2002 and contributions of £0.7m (2002: £0.3m) in respect of the defined contribution section. The pension costs for the Group will continue to be set at a level that takes account of the past service funding position of the scheme. Full pension costs of the Group amounted to £11.2m (2002: £10.0m) including the estimated cost of meeting unfunded unapproved pension liabilities relating to scheme members whose benefits would otherwise be restricted by the Inland Revenue salary cap. There is a pension accrual in the balance sheet of £19.1m (2002: £20.1m). A further payment of £2.5m has been made since the year end as a contribution in respect of the defined benefit section deficit and the Board will keep the need for any further such payments under review.

**FRS 17 Retirement Benefits**

The pension costs shown in these accounts comply with the current pension cost accounting standard, SSAP 24. The new pension cost accounting standard, FRS 17, is applicable for year ending January 2006 and subsequent years. Under transitional arrangements the Company is required to disclose the following information about the scheme and the treatment that would have been shown under FRS 17 in the accounts for the year ended 1 February 2003.

The information required for disclosure in accordance with FRS 17 Retirement Benefits is based on the most recent actuarial valuation as at 31 March 2002 and updated to 1 February 2003 in order to assess the liabilities of the defined benefit section (including the unfunded, unapproved arrangement) at that date. The following financial assumptions have been used to calculate scheme liabilities under FRS 17:

| | **January 2003** | January 2002 |
|---|---|---|
| Valuation method | **Projected unit** | Projected unit |
| Discount rate | **5.25%** | 5.5% |
| Salary increases | **4.0%** | 4.0% |
| Inflation | **2.25%** | 2.25% |
| Pension increases | **2.25%** | 2.25% |
| Increases to deferred benefits during deferment | **2.25%** | 2.25% |

# NOTES TO THE ACCOUNTS

**37 Pension commitments (continued)**

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

| | **Long-term rate of return expected** | | **Value at** | Value at |
|---|---|---|---|---|
| | **January 2003** | January 2002 | **January 2003** | January 2002 |
| | | | **£m** | £m |
| Equities | **7.0%** | 7.0% | **120.2** | 159.8 |
| Bonds | **5.0%** | 5.25% | **18.4** | 23.5 |
| Property | **7.0%** | 7.0% | **2.1** | 8.9 |
| Other | **4.5%** | 4.75% | **10.5** | 3.9 |
| Total market value of assets | | | **151.2** | 196.1 |
| Present value of scheme liabilities | | | **(252.9)** | (215.0) |
| Deficit in the scheme | | | **(101.7)** | (18.9) |
| Related deferred tax asset | | | **30.5** | 5.7 |
| Net pension liability under FRS17 | | | **(71.2)** | (13.2) |

The following amounts would be included within operating profit:

| | **2003** |
|---|---|
| | **£m** |
| Current service cost | **11.8** |
| Past service costs | – |
| Total | **11.8** |

The following amounts would be included within other finance income:

| | **2003** |
|---|---|
| | **£m** |
| Expected return on scheme assets | **13.2** |
| Interest on scheme liabilities | **(11.7)** |
| Net finance return | **1.5** |

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

| | **2003** |
|---|---|
| | **£m** |
| Difference between actual and expected return on scheme assets | **(59.8)** |
| Experience losses arising on scheme liabilities | **(11.7)** |
| Effects of changes in assumptions underlying the present value of scheme liabilities | **(13.7)** |
| Total actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses | **(85.2)** |

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

The difference between actual and expected return on scheme assets represents 40% of the scheme assets at 1 February 2003. The experience losses arising on scheme liabilities represents 5%, and the total actuarial loss represents 34% respectively of the present value of scheme liabilities at 1 February 2003.

# NOTES TO THE ACCOUNTS

**37 Pension commitments (continued)**

| | Net assets | | Profit and loss reserve | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | **£m** | £m | **£m** | £m |
| Group position (Page 23) | **275.1** | 546.9 | **1,679.3** | 490.1 |
| Pension accrual under SSAP 24 less related deferred tax asset | **13.4** | 14.1 | **13.4** | 14.1 |
| Group position excluding pension liability | **288.5** | 561.0 | **1,692.7** | 504.2 |
| Pension liability under FRS 17 | **(71.2)** | (13.2) | **(71.2)** | (13.2) |
| Group position including pension liability | **217.3** | 547.8 | **1,621.5** | 491.0 |

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

| | **2003** |
|---|---|
| | **£m** |
| Opening deficit | **(18.9)** |
| Current service cost | **(11.8)** |
| Contributions | **12.7** |
| Finance income | **1.5** |
| Actuarial losses | **(85.2)** |
| Closing deficit | **(101.7)** |

**38 Directors' emoluments**

The Directors' Remuneration Report on pages 15 to 20 contains full details of the directors' emoluments for the year.

# GROUP COMPANIES

The Group has taken advantage of s231(5) of the Companies Act 1985 in order to list only its principal subsidiary and associated undertakings at 1 February 2003. All these were 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* | Retailing of womenswear, menswear, childrenswear, home products, accessories and fashion jewellery |
| The NEXT Directory** | Home shopping for womenswear, menswear, childrenswear, home products, accessories and fashion jewellery |
| Club 24 Limited* | Customer and financial services management |
| Ventura*** | Customer and financial services management |
| First Retail Finance Limited* | Customer and financial services management |
| NEXT (Asia) Limited* | Overseas sourcing services (Hong Kong) |
| NEXT Near East**** | Overseas sourcing services |
| NEXT Distribution Limited* | Warehousing and distribution services |

**Associated undertakings**

| | |
|---|---|
| Choice Discount Stores Limited* | Retailing (40%) |
| Cotton Traders Holdings Limited* | Home shopping and retailing (30%) |

* Shareholdings held by subsidiary undertakings.
** The trade of the NEXT Directory is carried out as a division of NEXT Retail Limited.
*** Ventura is a trading name of Club 24 Limited.
**** The trade of NEXT Near East is carried out by divisions of NEXT Retail Limited and NEXT (Asia) Limited.

# HALF YEAR AND SECTOR ANALYSIS

For the financial year ended 1 February

| | First half £m | Second half £m | 2003 £m | First half £m | Second half £m | 2002 £m |
|---|---|---|---|---|---|---|
| **Turnover** | | | | | | |
| NEXT Retail | **656.0** | **923.7** | **1,579.7** | 559.5 | 800.2 | 1,359.7 |
| NEXT Directory | **215.3** | **256.4** | **471.7** | 162.7 | 199.5 | 362.2 |
| NEXT Franchise | **10.0** | **12.7** | **22.7** | 8.2 | 10.9 | 19.1 |
| Ventura | **49.7** | **47.7** | **97.4** | 51.5 | 50.4 | 101.9 |
| Other activities | **13.8** | **17.3** | **31.1** | 12.4 | 16.4 | 28.8 |
| | **944.8** | **1,257.8** | **2,202.6** | 794.3 | 1,077.4 | 1,871.7 |
| **Profit before tax** | | | | | | |
| NEXT Retail | **74.5** | **139.4** | **213.9** | 58.9 | 129.3 | 188.2 |
| NEXT Directory | **30.2** | **34.9** | **65.1** | 21.8 | 27.4 | 49.2 |
| NEXT Franchise | **1.9** | **2.5** | **4.4** | 1.6 | 2.1 | 3.7 |
| Ventura | **5.0** | **6.2** | **11.2** | 6.0 | 7.0 | 13.0 |
| Other activities | **6.5** | **8.6** | **15.1** | 5.4 | 7.1 | 12.5 |
| ESOP charge | **(4.5)** | **(3.7)** | **(8.2)** | (3.4) | (4.6) | (8.0) |
| Profit before interest | **113.6** | **187.9** | **301.5** | 90.3 | 168.3 | 258.6 |
| Interest (charge)/income | **2.2** | **(2.5)** | **(0.3)** | 2.7 | 4.5 | 7.2 |
| Profit before tax | **115.8** | **185.4** | **301.2** | 93.0 | 172.8 | 265.8 |

# FIVE YEAR HISTORY

| Year ended January | **2003** | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| | **£m** | £m | £m | £m | £m |
| Turnover | **2,202.6** | 1,871.7 | 1,588.5 | 1,425.4 | 1,239.1 |
| Profit before interest | **301.5** | 258.6 | 213.8 | 186.8 | 157.9 |
| Net interest (payable)/receivable | **(0.3)** | 7.2 | 4.6 | 7.9 | 9.0 |
| Profit before taxation | **301.2** | 265.8 | 218.4 | 194.7 | 166.9 |
| Taxation | **(90.7)** | (76.0) | (60.8) | (54.5) | (43.0) |
| Profit after taxation | **210.5** | 189.8 | 157.6 | 140.2 | 123.9 |
| Dividends | **(86.0)** | (89.0) | (73.7) | (76.4) | (69.1) |
| Profit transferred to reserves | **124.5** | 100.8 | 83.9 | 63.8 | 54.8 |
| Shareholders' funds | **275.1** | 546.9 | 499.7 | 606.7 | 542.8 |
| Shares purchased for cancellation | **43.9m** | 6.4m | 37.4m | – | – |
| Dividend per share | **31.0p** | 27.5p | 24.0p | 21.0p | 19.1p |
| Earnings per share | **68.7p** | 58.1p | 46.8p | 38.4p | 33.9p |

# NOTICE OF MEETING

Notice is hereby given that the first Annual General Meeting of NEXT plc will be held at One Great George Street, Westminster, London, SW1P 3AA on Tuesday 13 May 2003 at 11.00 a.m. at which the following resolutions will be proposed; resolutions 1 to 14 as Ordinary Resolutions and 15 to 16 as Special Resolutions.

**Ordinary business**

1 To receive and adopt the accounts and reports of the directors and auditors for the period ended 1 February 2003.

2 To approve the directors remuneration report for the year ended 1 February 2003.

3 To declare a final dividend of 21p per share in respect of the period ended 1 February 2003.

4 To re-elect Christos Angelides as a director who retires according to Article 97 having been appointed by the Board during the year.

5 To re-elect John Barton as a director who retires according to Article 97 having been appointed by the Board during the year.

6 To re-elect Ann Burdus as a director who retires according to Article 97 having been appointed by the Board during the year.

7 To re-elect David Jones as a director who retires according to Article 97 having been appointed by the Board during the year.

8 To re-elect David Keens as a director who retires according to Article 97 having been appointed by the Board during the year.

9 To re-elect Alistair Mitchell-Innes as a director who retires according to Article 97 having been appointed by the Board during the year.

10 To re-elect Derek Netherton as a director who retires according to Article 97 having been appointed by the Board during the year.

11 To re-elect Andrew Varley as a director who retires according to Article 97 having been appointed by the Board during the year.

12 To re-elect Simon Wolfson as a director who retires according to Article 97 having been appointed by the Board during the year.

13 To re-appoint Ernst & Young LLP as auditors and authorise the directors to set their remuneration.

Biographies of directors seeking re-election are shown on page 8 of the Annual Report.

**Special business**

To consider and, if thought fit, pass the following resolutions, of which resolution 14 will be proposed as an Ordinary Resolution and resolutions 15 and 16 as Special Resolutions.

14 That the directors be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to exercise all powers of the Company to allot relevant securities (as defined in the said Section) up to an aggregate nominal amount of £10,100,000 such authority to expire on 13 May 2008 but to be capable of previous revocation or variation by the Company in general meeting and of renewal from time to time by the Company in general meeting for a further period not exceeding five years provided that:

(a) the Company may make any offer or agreement before the expiry of this authority that would or might require relevant securities to be allotted after this authority has expired; and

(b) all previous authorities to allot securities conferred by resolution of the Company pursuant to Section 80 of the Act or otherwise be and they are hereby revoked (to the extent that they have not been previously utilised).

15 That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of the said Act) pursuant to the authority conferred by resolution 14 set out in the Notice of this meeting for cash as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem fit to deal with fractional entitlements or any legal or practical problems arising under the laws of any territory, or requirements of any regulatory body or stock exchange in any territory; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £1,400,000 being less than 5% of the issued ordinary share capital outstanding at 24 March 2003 and shall expire on 13 May 2008 save that the Company may before such expiry make an offer agreement which would or might require equity securities to be allotted after such expiry.

# NOTICE OF MEETING

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

(i) be limited to the lesser of 42,000,000 ordinary shares of 10p each or 15% of the issued ordinary share capital outstanding at the date of the Annual General Meeting;

(ii) the minimum price which may be paid for ordinary shares is 10p per ordinary share;

(iii) the maximum price which may be paid for each ordinary share is an amount not more than 5 per cent over the average of the middle market price of the ordinary shares of the Company according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase;

(iv) the authority hereby conferred shall expire on whichever is the earlier of:

(a) 18 months after the date on which this resolution is passed, and

(b) the conclusion of the Annual General Meeting of the Company held in 2004;

(v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority.

**W R Barnes, Secretary**
**Registered Office**
**Desford Road, Enderby**
**Leicester, LE19 4AT**

**10 April 2003**

**Attendance and voting**

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

The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 1am on 12 May 2003 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time.

Changes to entries on the relevant register of securities after 1am on 12 May 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

**Electronic proxy appointment through CREST**

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 13 May 2003 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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

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

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

**Directors' service contracts**

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

# SHAREHOLDER INFORMATION

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

**Financial diary**
The recommended final ordinary dividend, if approved, will be paid on 1 July 2003 to holders of ordinary shares registered on 30 May 2003. The ordinary shares will trade ex-dividend from 28 May 2003.

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

| | |
|---|---|
| Interim results | September |
| Final results | March |

**Annual General Meeting**
The Annual General Meeting will be held at 11.00 a.m. on Tuesday 13 May 2003 at One Great George Street, Westminster, London, SW1P 3AA. The notice of the meeting on pages 49 and 50 sets out business to be transacted. Please detach the attendance card from the form of proxy and bring it to the meeting. Presentation of this card will show that you have the right to attend, speak and vote. Full access is available to the venue for those with special requirements.

**Proxy card**
The proxy card is enclosed for you to detach, complete and send to Lloyds TSB Registrars. **It must be received by 11.00 a.m. on 11 May 2003.**

**Share price data**

| | **2003** | 2002 |
|---|---|---|
| Share price at 31 January | **760p** | 949p |
| Market capitalisation | **£2,179m** | £3,138m |
| Share price movement during year: | | |
| High mid market quotation | **1096.5p** | 1022p |
| Low mid market quotation | **717p** | 778p |

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

**Registrars and transfer office**
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone 0870 600 3970

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

- change of name or 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, Lloyds TSB Registrars, gives you more online information about your NEXT plc shares and other investments.

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

For shareholders with disabilities Lloyds TSB Registrars provide the following:

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

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

**Discount voucher**
The Company offers a discount voucher to any first named, registered shareholder holding 500 or more ordinary shares as at 1 April each year. The voucher entitles the recipient or their immediate family to a 25% discount against most purchases at any one time of full price merchandise in NEXT Retail stores. The voucher has no monetary purchase limit and expires on 30 September 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.

# SHAREHOLDER'S NOTES

# NEXT

Annual Report and Accounts
January 2003

www.next.co.uk
www.nextflowers.co.uk