NEXT

Annual Report and Accounts
January 2004

2004

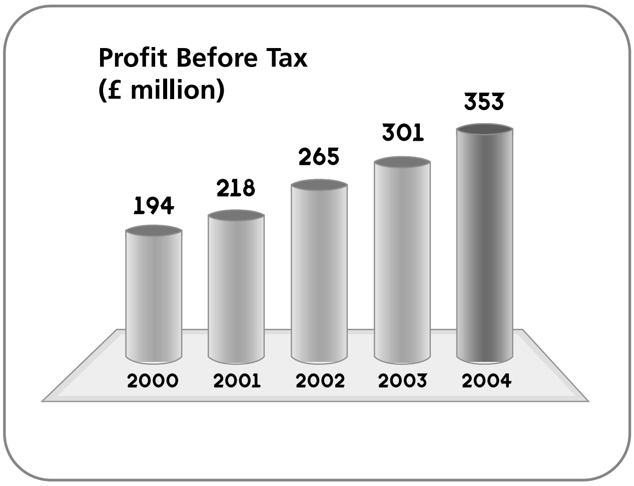
NEXT

CONTENTS

January 2004 Summary of Performance

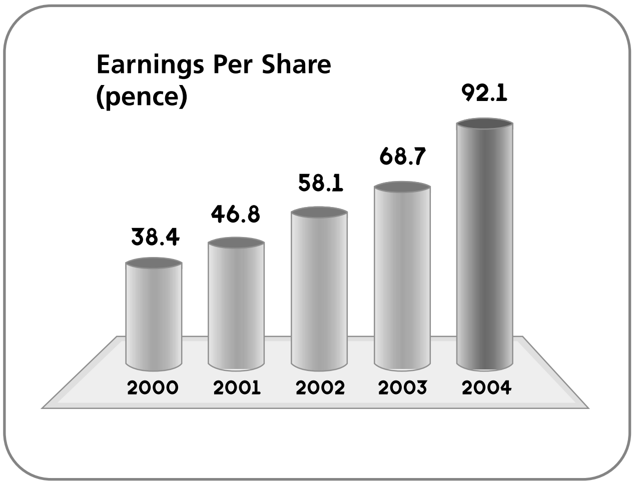
" I am pleased to report that NEXT has had another successful year"

- **Group turnover increased 14% to £2,516m**
- **Profit before tax increased 17% to £353m from £301m**



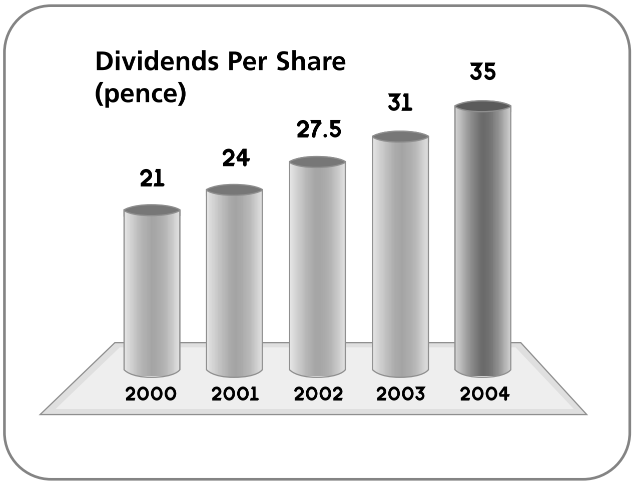
"Earnings per share rose by 34% to 92.1p, enhanced by the beneficial effect of share buybacks over the last two years"

- **21.7 million shares purchased for cancellation during the year at a cost of £209m**



"Long term growth in earnings per share continues to be one of our key objectives"

- **Dividends for the year increased 13% to 35p from 31p**
- **Dividend cover rises to 2.6 times**



"The success of NEXT owes so much to the enthusiasm and dedication of all our employees and the support of our suppliers"

Chairman's Statement

I am pleased to report that NEXT has had another successful year, we achieved good growth in both sales and profits. Earnings per share rose by 34% to 92.1p, enhanced by the beneficial effect of share buybacks over the last two years.

We began to buy back our shares in March 2000 and since then we have bought and cancelled 109 million shares, representing 29% of the shares in issue at that date. The long term growth in earnings per share continues to be one of our key objectives, and we will continue to buy back our shares when it is in the interests of our shareholders.

Two of our non-executive directors will be retiring from the Board at the Annual General Meeting:

- Alistair Mitchell-Innes was appointed in 1989 and throughout his 15 years with us he has maintained an independent approach, always probing the policies and performance of the executive team in his persistent yet thoughtful way. I was delighted when he accepted the invitation to become Deputy Chairman in May 2002. Alistair has also been the Chairman of the NEXT Pension Scheme since 1991 and has agreed to continue in that role for a short period in order to ensure an efficient handover to his successor.

- Ann Burdus joined the Board in 1993 and we have all benefited from her wide experience in marketing as well as her common sense approach to business.

On behalf of everyone at NEXT I would like to thank Alistair and Ann for their contribution to our success and wish them well for the future.

We appointed Nick Brookes to the Board in June 2003 and we are currently looking for another non-executive director. I am pleased to announce that John Barton has accepted the invitation to become Deputy Chairman and Senior Independent Director at the conclusion of this year's AGM.

The success of NEXT owes so much to:

- The strength and skills of a well motivated management team.

- The enthusiasm and dedication of all our employees.

- The support of our suppliers with whom we work in partnership to provide products of good quality and value for our customers.

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

David Jones

David Jones CBE
Chairman

25 March 2004

Chief Executive's Review

INTRODUCTION

Sales up 14%

In the year to January 2004 Group turnover was £2,516m, 14% ahead of the previous year. Sales in NEXT Retail were up 14% and in NEXT Directory were up 13%.

The year consisted of 52 weeks for NEXT Retail and Directory, compared with 53 weeks last year. On a comparable 52 week basis NEXT Retail sales increased by 16% and Directory by 15%.

Operating profit up 23%

Group profit before interest and tax increased by 23%. The increase in operating profit was significantly ahead of growth in total sales. Full price sales (which are the real driver of profit) were up 16.8% whereas markdown sales were level with last year. Tight control of costs also contributed to further growth in operating profit. Share buybacks had two significant effects on the profit and loss account:

- An increased interest charge, which restricted the increase in profit after tax to 16%.

Earnings per share up 34%

- The reduced number of shares in issue, which accelerated the growth in earnings per share to 34%.

PROFIT AND LOSS ACCOUNT

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

	Turnover excluding VAT		Profit & Earnings per share		
	2004	2003	**2004**	2003	
	£m	£m	**£m**	£m	
NEXT Retail	**1,809.3**	1,579.7	**259.4**	213.9	
NEXT Directory	**533.7**	471.7	**77.0**	65.1	
The NEXT Brand	**2,343.0**	2,051.4	**336.4**	279.0	**+20%**
NEXT Franchise	**28.8**	22.7	**5.3**	4.4	
Ventura	**112.0**	97.4	**15.4**	11.2	
Other activities	**32.2**	31.1	**18.6**	15.1	
ESOP charge			**(5.1)**	(8.2)	
Turnover & operating profit	**2,516.0**	2,202.6	**370.6**	301.5	**+23%**
Interest expense			**(17.3)**	(0.3)	
Profit before tax			**353.3**	301.2	**+17%**
Taxation			**(108.1)**	(90.7)	
Profit after tax			**245.2**	210.5	**+16%**
Earnings per share			**92.1p**	68.7p	**+34%**

Chief Executive's Review

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. We aim to achieve this 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 buy back our shares for cancellation as and when it is in the interests of our shareholders generally. The increase in our share price and in interest rates makes buybacks less beneficial and this year we may not be as active in the market as in the last two years.

THE DEVELOPMENT OF THE NEXT PRODUCT

Improving style, quality and value

The style, quality and value of our ranges remain our highest priority. We believe that it is the product that makes the brand successful, not vice versa. Over the past year we have made significant improvements to our supply base and this, combined with a weaker dollar, has enabled us to pass on noticeable improvements in value to our customers without sacrificing gross margin. This effort to improve value through better sourcing and selection will remain at the heart of our business in the year ahead.

Price deflation

Beneficial price deflation

As a result of improved value our average selling price has declined. Some commentators see this as a concern, we do not. As long as price reductions are not at the expense of margin or quality then the drop in average selling price is an advantage. This delivers better value to our customers and so increases sales.

New product

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. In the year ahead we will be focusing on improving our supplier base in some new product areas, in particular Home and Lingerie.

Whilst new product 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 account for downturn in neighbouring stores and 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.

Sales from new space exceeding target by 12%

Performance of new space

We have continued to develop our store portfolio both in and out of town. This year's portfolio of new space is exceeding its appraised sales target by 12% and is forecast to pay back the net capital invested in 12 months.

Profile of new space

During the year we added a net 506,000 square feet to our trading space, increasing the total by 21% to 2,844,000 square feet. The table below shows how our store portfolio has changed over the last three years.

Store size	Number of stores			% of Selling space		
(square feet)	**2004**	2003	2002	**2004**	2003	2002
Less than 5,000	**166**	182	198	**18%**	23%	29%
5,000-10,000	**99**	96	86	**26%**	29%	30%
10,000-15,000	**45**	34	22	**19%**	18%	14%
15,000-20,000	**25**	19	14	**15%**	14%	12%
Greater than 20,000	**23**	13	11	**22%**	16%	15%
TOTAL	**358**	344	331			

The year ahead

We currently expect to increase net selling space by around 420,000 square feet in the year ahead, less than was achieved in the year to January 2004.

Impact on like-for-like sales

Underlying like-for-like sales up 3.7%

NEXT defines like-for-like stores as those that have traded for at least one full year and have not benefited from significant capital expenditure. Inevitably this includes all those stores that have been affected by new openings. Over the past year we have shown both the headline like-for-like figures and separately shown the deflection to give underlying growth in stores that have not been affected by new openings. Total like-for-like sales were up 1.8% whilst those stores unaffected by new openings were up 3.7%. It is this last figure which we focus on when analysing the performance of our ranges.

Trial store in Denmark

This year we will open a trial store in Copenhagen. We believe that most of the major fashion markets in Europe are not yet similar enough to the UK to allow us to make adequate returns on investment in those countries. However the success of our franchise in Iceland raised the possibility that the Scandinavian market may be more aligned with UK tastes.

Only time will tell, and it will be at least a year before we can draw any firm conclusions. Even if a test store is successful in one overseas market it does not imply success will follow in other overseas markets. Any further international expansion will be extremely cautious and the main opportunities for growth will remain in our core markets of the UK and Eire.

THE DEVELOPMENT OF NEXT DIRECTORY

Directory profitability addressed

At the half year we reported good growth in Directory sales but no growth in profit. The corrective measures we outlined at the time, along with improved stock availability and reduced product returns rates, have been successful in restoring growth in profit.

Growing the customer base

13% growth in Directory customers

The growth in new customers has been the most significant contributor to the growth of sales in our home shopping division. We start the new year with 13% more customers than a year ago.

	January 2004	January 2003	**Growth**
Total active customers	**1,660,000**	1,467,000	**13%**

During the last half of the year we experienced a noticeable decline in response rates to certain forms of customer recruitment. As a result we have cut out some unprofitable advertising and direct mail. We therefore currently expect more modest growth in customer numbers in the year ahead.

Expansion of pages and product offer

We have continued to increase the number of pages in order to expand the choice of product available to the NEXT home shopper. The table below shows how the pages printed for each product area have increased. The fastest growth has come from the Home area.

PAGES	**2004**	2003	**Growth**
Womens	**890**	829	**7%**
Mens	**490**	465	**5%**
Childrens	**476**	428	**11%**
Home	**652**	454	**44%**
TOTAL	**2,508**	2,176	**15%**

Improving service

Delivering Directory services in store

We continue to improve and expand store based services for our Directory customers. Last year over two million Directory items were collected or returned via our stores. In addition we have increased the number of customers who are able to use their Directory account to make purchases in NEXT stores from 424,000 in January 2003 to 588,000 in January 2004.

Inevitably this has meant there has been some transfer of business from Directory to Retail. However, as both businesses are making similar net margins, our only concern is that the customer is able to purchase and return goods in the way that is most convenient to them.

In the coming year we will be looking at providing other call-centre and store based services, for example we will be trialling a Wedding List service.

PLANNED WAREHOUSE INVESTMENTS

£50m of warehouse capex over next two years

In order to support the growth of both Retail and Directory we will be making significant investments in warehousing over the next two years. In August 2004 we will open a new warehouse specifically for Home product. This will be 600,000 square feet and incur fit out costs of £8 million. In August 2005 we plan to open another warehouse for boxed stock, it will be 300,000 square feet, highly mechanised and cost in the region of £38 million to fit out. In both cases the warehouses are being built to our specification and will be leased.

NEXT FRANCHISE

Our overseas franchise operation had another successful year, with sales increasing by 27% and achieving a profit of £5.3m. At the end of January 2004 there were 70 franchise stores compared with 59 the previous year. The Middle East continues to be our largest region with 30 stores. Our partner in Japan now has 18 stores. We expect further progress in the year ahead.

VENTURA

Winning new clients

Ventura performed well ahead of our expectations, both in terms of sales achieved and costs controlled. It commenced providing services on behalf of several new clients, including the Pension Credit Service and British Gas. Operating efficiencies have increased and we expect all existing call centre facilities will be fully occupied in the near future. We are therefore pursuing opportunities to add capacity during the coming year in order to accommodate increasing demand from existing and new clients.

Ventura's profit increased to £15.4m compared with £11.2m the previous year. Whilst the majority of this profit came from customer service activities the residual consumer credit business remains profitable and contributed £2m for the year. We continue to make good progress in broadening the client base through offering high quality services at very competitive prices. We believe that Ventura can grow over the next five years, however, following the re-negotiation of Ventura's largest contract at lower margins we expect profits to take a step backwards in the year ahead.

OTHER ACTIVITIES

Profitable sourcing offices

The profit in Other Activities of £18.6m includes £17.6m from NEXT Asia, our product sourcing company in the Far East, and the first full year contribution of £6.1m from NEXT Near East, which we purchased in July 2002 and sources product manufactured in Turkey, Sri Lanka and Romania. Other Activities also includes our Property Management Division, Choice (an associated company which operates a chain of thirteen discount stores), Cotton Traders (an associated company selling its own brand products) and Central Costs, the largest of which is a pension charge.

£6m increase in pension charge

The total cost of the Group's pension schemes increased to £17.6m from £11.2m last year, including a charge of £6m in respect of the past service deficit. A year ago we estimated the deficit to be £62m whereas at January 2004 we estimated it to be £44m. This would require reduced annual payments of £4m, in addition to the regular cost, to eliminate the deficit over the next thirteen years.

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 charge has been £5.3m, this year the charge amounted to £5.1m compared with £8.2m last year. Almost 9,000 of our employees currently hold a total of 9 million share options in NEXT. Our employee share ownership trust purchases shares in the market and issues them to employees when options are exercised, the 8 million shares which it owns are shown in the balance sheet as a fixed asset investment.

SHARE BUYBACKS

Another 7.6% purchased for cancellation

During the year we purchased a further 21.7 million shares for cancellation at an average price of 961p, for a cash cost of £209m. This was 7.6% of the shares in issue at the beginning of the year. The average number of shares in issue during the year was 275 million and at 31 January there were 265 million outstanding. As a direct result of share buybacks over the past two years, this year's earnings per share were enhanced by 12%.

It is worth repeating the Board's policy on the use of debt to buy back shares.

- The primary use of capital will continue to be investment in the development of the core businesses. Share buybacks will not be made at the expense of capital investment in the business.
- We aim to maintain the company's investment grade credit rating.

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

BALANCE SHEET AND CASH FLOW

£300m 10 year Bond

At January 2004 net borrowings were £306m compared with £189m the previous year. The cash outflow of £117m was due to the £209m cost of shares purchased for cancellation, excluding this the cash inflow was £92m. Borrowings are financed through a £300m 5.25% 10 year bond, which was issued in June 2003, and medium term bank facilities. The majority of our borrowings are now at fixed interest rates and therefore, at current levels of debt, any rate changes in the medium term will not have a significant impact on our cost of borrowing.

Capital expenditure amounted to £101m, of which £82m was spent on stores. Stock levels at £264m were in line with our trading requirements. Debtors of £378m includes the £272m account balances of our Directory customers. These balances have increased faster than our home shopping sales as many customers use their Directory Storecard to make additional purchases whilst in our stores.

DIVIDEND

Dividend increase 13%

The Directors are pleased to recommend a final dividend of 24p against 21p last year, bringing the total for the year to 35p compared with 31p last year, an increase of 13%. The dividend is covered 2.6 times by earnings per share of 92.1p.

CURRENT TRADING

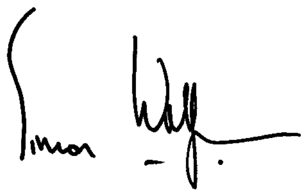
The new season has started well, however, it is important to note that this year's trading statement includes Mothers Day which was not the case last year. We estimate this has increased sales by at least 1% in the seven week period.

In the first seven weeks since the start of the new financial year NEXT Retail sales are 17% ahead of the previous year. Like-for-like sales in the 306 stores which have been trading for at least one year are 3.0% ahead. Included in those stores are 26 that, as anticipated, have been directly affected by new store openings and extensions. Underlying sales in the 280 stores which have not been affected by new space are 4.8% ahead of last year.

NEXT Directory sales for the first seven weeks are 13% ahead of the previous year.

Taken together, sales for the NEXT Brand are 16% ahead.

Our next trading statement will be made on 13 May 2004, which is the date of our Annual General Meeting.



Simon Wolfson
Chief Executive

25 March 2004

Directors and Officers

CHAIRMAN OF THE BOARD

David Jones CBE
Aged 61
Joined the Group and was appointed to the Board in 1986. Appointed Chief Executive in 1988 and became Deputy Chairman in 2001 and Chairman in 2002. 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. He is also a non-executive director of Aggregate Industries plc and Leicester Football Club plc.

EXECUTIVE DIRECTORS

Simon Wolfson, Chief Executive
Aged 36
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 40
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 50
Joined the Group in 1986 and was appointed to the Board in 1991. Previous experience includes seven years in the accountancy profession and nine years in the UK and overseas operations of multi-national manufacturers of consumer goods.

Andrew Varley, Group Property Director
Aged 53
Joined the Group in 1985 and was appointed to the Board in 1990. Previous experience includes twelve years in retail and commercial property.

BOARD COMMITTEES

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

Remuneration Committee
R J O Barton (Committee Chairman)
N G Brookes
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
N G Brookes
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 70
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.

John Barton
Aged 59
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.

Nick Brookes
Aged 53
Became a member of the Board in June 2003. He has held a number of directorships within the British American Tobacco plc group, was Company Secretary and most recently Regional Director, America Pacific. Previous experience includes a career in the legal profession and operational roles in Africa and the USA.

Ann Burdus CBE
Aged 70
Became a member of the Board in 1993. She was a non-executive director of Prudential Corporation PLC until December 2003 and is 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 59
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.

Company Secretary
A J R McKinlay

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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 31 January 2004.

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 24. The amount of profit transferred to reserves for the year was £155.9m. Turnover and operating profit of the Group are shown in greater detail in the analysis on page 30. The Chief Executive's Review on pages 3 to 8 gives details of the Group's operations.

Dividends

The directors recommend that a final dividend of 24p per share be paid on 1 July 2004 to shareholders on the register of members on 28 May 2004. 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 12 to the accounts.

Share Capital

The Company was authorised by its shareholders to purchase the Company's own shares for cancellation. During the year the Company purchased a total of 21,740,939 ordinary shares of 10p each for cancellation at a cost of £209.0m, representing 7.6% 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 2004 to renew the authority. On 31 January 2004 the Company had 265,070,503 shares in issue. As at 22 March 2004 there had been no subsequent changes to the Company's issued share capital.

Supplier payment policy

The Group's policy for the payment of suppliers is either to agree terms of payment at the start of business or to ensure that the supplier is aware of the Group's payment terms. Payment is made in accordance with contractual and other legal obligations. Trade creditor days of the Group at 31 January 2004 were 26 days (2003: 27 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 31 January 2004 or 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.

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. Borrowing requirements are supported by committed bank facilities of £350m as at 31 January 2004 (2003: £250m). At the year end, the Group had net borrowings of £306.9m (2003: £188.8m). On 6 June 2003, the group issued a £300m 5.25% bond repayable in 2013, see Note 17.

Interest rate management

The Board has approved the use of interest rate swaps, options, forward rate agreements and other similar instruments to manage interest rate exposures on its cash and borrowing position. The Group increased its borrowings during the year and entered into transactions to fix interest rates on £250m.

Foreign currency management

The Group's principal foreign currency exposures arise from the purchase of overseas sourced products. Group policy allows for but does not demand that these exposures may be hedged for up to 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 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 continues 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 £393,000 (2003: £403,000). No donations were made for political purposes.

International Financial Reporting Standards

The Group will be required to prepare its financial statements in line with International Financial Reporting Standards (IFRS) for accounting periods commencing after 1 January 2005. This will require an opening balance sheet to be prepared under IFRS as at 1 February 2004 together with a full profit and loss account, balance sheet and cash flow statement for the year ended January 2005 for comparative purposes. A review of the impact of the change to IFRS is underway within the Group.

Substantial shareholders

As at 22 March 2004 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	%
Fidelity Investments	17,049,770	6.43
Legal & General	11,287,071	4.26
Credit Suisse First Boston	11,211,355	4.23
Scottish Widows Investment Partnership Ltd	10,917,594	4.12
Barclays plc	10,617,174	4.01

Directors

The current Board is shown on page 9 of this Report. Nick Brookes was appointed to the Board on 25 June 2003 and retires in accordance with the Company's Articles of Association. David Keens will retire by rotation. Both are eligible and willing to be reappointed.

Alistair Mitchell-Innes and Ann Burdus will retire from the Board at the conclusion of the Annual General Meeting on 13 May 2004.

The interests of the directors who held office at 31 January 2004 and their families are shown in the Remuneration Report on pages 22 and 23.

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 51 and 52.

Share Option Schemes

Ordinary resolution 7 will give the directors authority to amend the rules of the Company's management share option and sharesave option schemes to permit options to be satisfied by the allocation of treasury shares. At present, the rules of the Company's schemes only allow option exercises to be satisfied by the issue of new shares or the transfer of existing shares. To date, the vast majority of option exercises have been satisfied by the transfer of existing shares held in NEXT's Employee Share Ownership Plans. The directors wish to extend the Company's flexibility by allowing the use of treasury shares to satisfy employee share options. Any such use of treasury shares will still count towards the limits on new share issues set out in the rules of the Company's share option schemes.

Renewal of authority to allot shares

Special resolution 8 will renew the directors' authority pursuant to Section 95 of the Companies Act 1985 to issue ordinary shares wholly for cash without first offering them to existing shareholders in proportion to their holdings. This resolution limits the nominal value of ordinary shares which may be issued by the directors to 5% of the issued ordinary share capital in conformity with the guidelines of the Association of British Insurers. This authority also allows the directors, within the same aggregate limit, to sell for cash shares that may be held by the Company in treasury. The directors have no present intention of exercising this authority. This authority will expire on 13 May 2008.

Purchase of own shares

Special resolution 9 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 39,000,000 ordinary shares of 10p each 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 2005.

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 or, if the directors consider appropriate, held in treasury.

By order of the Board

A J R McKinlay
Secretary

25 March 2004

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 considers that the Group is well placed to comply with the requirements of the new Combined Code, which will become fully effective for the financial year ended January 2005.

The Board of Directors

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

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

The Board held nine full meetings during the year. Meetings were well attended by all directors serving at each date, with the aggregate attendance exceeding 90% of the potential full attendance.

The Board includes five non-executive directors who bring considerable knowledge, judgement and experience to the Group. The Board has appointed committees to carry out certain of its duties, three of which are detailed below. Each of these Committees has written terms of reference which state its authority and duties, and which are available for inspection at the Annual General Meeting or on request. Further committees are charged with carrying out day to day management of the Group.

In addition to formal meetings, open discussions are frequently held between directors and information is provided to all directors on a regular basis. All directors are required to submit themselves for re-election by shareholders at least once every three years.

Audit Committee

The Committee comprises five independent non-executive directors including the senior non-executive director. The Committee Chairman is a former investment banker with recent and relevant financial experience.

The Committee holds regular, structured meetings and consults with external auditors and senior management where appropriate. Three meetings were held in the year, with aggregate attendance exceeding 90% of the potential full attendance. 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, any major accounting issues of a subjective nature are discussed by the Committee.

Remuneration Committee

The Committee consists of five 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 and review that of senior executives. A Remuneration Report is included in this Annual Report. The Committee met four times during the year, and all meetings were fully attended.

Nomination Committee

The Committee consists of five independent non-executive directors, including the senior non-executive director. The Committee meets as required to fulfil its duties of reviewing the Board structure and composition. It is also responsible for identifying and nominating candidates to fill Board vacancies as they arise. During the year, two meetings were held and all members were consulted.

Chairman

The Company maintains a division of responsibilities between the offices of Chairman and Chief Executive, which will be set out in writing and approved by the Board. The two positions are filled by different individuals. The current Chairman was an executive director (formerly the Chief Executive of the Company) with relevant experience in the management of the business. Consultation was carried out with major shareholders in advance of his appointment to Deputy Chairman in 2001 and Chairman in 2002.

The Chairman's other significant commitments are noted on page 9. The Board considers that these are not a constraint on the Chairman's agreed time commitment to the Company.

Chief Executive

The Board sets objectives and annual targets for the Chief Executive to achieve. The Board is responsible for general policy on how these objectives are achieved and delegates the implementation of that policy to the Chief Executive. The Chief Executive is required to report 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 product, sales, property, warehousing, systems and personnel. Key performance indicators are monitored daily and weekly.

Performance evaluation

The performance of the Board and its sub-committees will be evaluated annually by the Chairman with each director on an individual basis. The senior non-executive director appraises the performance of the Chairman through discussions with all the directors individually.

Risk management

The Board is responsible for the Group's risk management process. It has delegated responsibility for implementation 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 carried out a review of the effectiveness of the Group's system of internal control covering financial, operational, compliance and other controls and risk management. This includes identifying and evaluating key risks, determining control strategies for these risks and considering how they may impact on the achievement of the business objectives. The risk management process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts and it 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, taking into account any changes in circumstances over the period. The Audit Committee has reviewed the level of internal audit resource available within the Group and believes that it is appropriate to the size and business risks of the Group.

The Board considers that the Group's management structure and timely and continuous monitoring of key performance indicators provide the ability to identify promptly any material areas of concern. Business continuity plans, procedures manuals and codes of conduct are maintained in respect of specific major risk areas and business processes. Through these 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 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 its primary role is to represent and promote the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group.

The Board communicates with its shareholders in respect of the Group's business activities through its Annual Report and Accounts, yearly and half yearly announcements and regular trading updates to the Stock Exchange. This information is also made publicly available via the Company's website. Shareholders have an opportunity to ask questions or represent their views to the Board at the Annual General Meeting. Shareholder views are also communicated to the Board through the inclusion in Board reports of statements made by representative associations.

The Board takes care not to disseminate information of a share price sensitive nature which is not available to the market as a whole.

Directors' responsibilities

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.

Corporate Social Responsibility Statement

NEXT recognises the importance of social, environmental and ethical matters. NEXT is committed to corporate social responsibility (CSR) at Board level and throughout the NEXT 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 these matters. An executive director is responsible for CSR and considers all aspects of the Group’s conduct in this respect. The Group’s policy addresses the safety and ethical responsibilities of suppliers and the diversity of its own workforce.

The Group's efforts to improve sustainable development will continue to focus on waste stream management. NEXT Retail has taken further steps to reduce waste at its stores and in particular has installed balers in most new stores. Recycling procedures are being rolled out and are now operating in more than half of its stores. During the year to January 2003 the Group’s warehouses sent over 2,500 tonnes of waste for recycling that would otherwise have gone into landfill sites. The Group will continue to pursue these objectives where commercially practicable.

NEXT Brand introduced a supplier Code of Practice in 1998 in respect of working conditions, including minimum compliance standards for labour, wages, environmental protection and other issues. A team of auditors, based in the UK and overseas, work exclusively to monitor, inform 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.

People are a key asset to the business. The Group is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination. 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. It has adopted policies aimed at minimising risk in the Group’s activities to ensure that they do not harm employees, customers or the general public, all of whose interests are regarded as critical to business success.

The Group continues to invest in improving the health, safety and well-being of its employees and customers. The health and safety policy has been reviewed by the Board and was reissued in November 2003 with increased emphasis on training and formal communication between staff and management. Additional resources have been devoted to the promotion of health and safety matters during the year. 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 has a well established corporate charity and sponsorship programme donating funds, time and resources to numerous local and national charities. A committee made up of employee representatives meets regularly to ensure that a diverse range of charitable causes are supported.

During the year NEXT commissioned its first CSR report from an independent third party, covering the year to January 2003. It is intended to repeat this process for the year to January 2004 and make the resulting report publicly available through the Company’s website.

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 Chairman and executive directors; it also reviews that of senior executives. The members of the Committee who served during the year are listed in this Annual Report. They are independent non-executive directors of the Company and have no personal financial interest (other than as shareholders) in the matters addressed by the Committee and have no conflicts of interest arising from cross-directorships.

Remuneration policy

The remuneration packages of directors are reviewed by the Committee at least annually on the same basis as any other employee of the Group. The review takes into account market practice and performance of the individual and of the business. Other factors taken into account include the experience and responsibility of the individuals concerned. The Committee receives information from various sources to provide independent advice on directors' remuneration. This includes Monks Partnership whose parent company, PricewaterhouseCoopers, has provided other services to the Group during the year, principally tax advice. The components of the Group's remuneration packages are detailed below.

Salary

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

Annual performance related bonus

The executive directors, excluding the Chairman, participate in an annual performance related bonus scheme which is based on a formula measuring the performance of the business. The performance measure is earnings per share before tax, which must increase by RPI and 2% prior to any bonus becoming payable. The formula determined by the Committee includes an upper limit of 75% of salary and other constraints which may reduce the bonus percentage below that determined by the formula.

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. It was renewed in 2002 at the time of the capital reconstruction. Performance is measured over periods of three years, which commence annually, by comparing Total Shareholder Return against approximately 20 other UK listed retail companies.

The comparator group of companies for the three year performance period January 2001 to January 2004 was as follows:

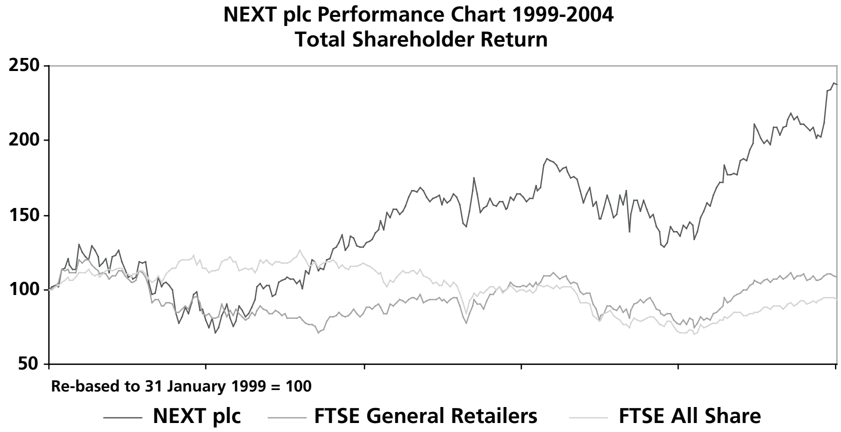
Arcadia	Dixons	Laura Ashley	N. Brown
Body Shop	Findel	Marks & Spencer	New Look
Boots	G.U.S.	Matalan	Selfridges
Debenhams	J Sainsbury	MFI Furniture	Tesco
DFS Furniture	Kingfisher	Mothercare	W H Smith

The Committee determines which companies are to be added to or removed from the comparator group. JJB Sports has been added to the comparator group for periods ending January 2005 onwards. Arcadia, Debenhams and Selfridges have been removed for periods ending January 2006 onwards following their delisting and have been replaced with Burberry, Signet and Woolworths.

The 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 believes that comparison against a group of retail companies is more likely to reflect the Company's relative performance against its peers, thereby resulting in appropriate awards being made.

Remuneration Report

The graph below shows relative Total Shareholder Return of the Company over five years when compared to the FTSE All Share index and FTSE General Retailers index. This illustrates the Company's performance against a wide all-share UK index and against other companies in the same sector.



Under the rules of the plan the maximum 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 periods commencing prior to January 2004. If Total Shareholder Return is more than one percentage point below the median ranking company there will be no entitlement to any of the award. For performance within one percentage point of the median the entitlement will be 30% of the maximum 70% award. For performance above the median the entitlement will rise, with the maximum award being earned for performance which places the Company in the upper quartile of the comparator group. Irrespective of where Company performance ranks, no award will be made unless the earnings per share of the Company has increased by at least the increase in the Retail Price Index over the period.

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

The Company has discretion as to whether entitlements earned are payable in NEXT plc shares or cash, to date it has allowed participants the choice. Entitlements earned are not pensionable and are based on salary and share price at the start of the performance period. Individuals included in the plan have not received grants under the management share option scheme in the same year.

Management share options

The management share option scheme was approved by shareholders in 1995, was renewed in 2002 and is due for renewal in 2005. 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. The total number of options which can be granted is subject to shareholder approved 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. Unapproved options can also be granted under the scheme, the maximum number being determined 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. The exercise of options is subject to a performance condition where the percentage growth in earnings per share of the Group over a three year period must exceed RPI and a further 3% per annum.

No options were granted to directors or changes made to existing entitlements in the year under review. No employee has received option grants under the scheme and been included in the long term incentive plan in the same year.

Sharesave options

The sharesave option scheme was approved by shareholders in 2000. It was renewed in 2002 at the time of the capital reconstruction and is due for renewal in 2010. Invitations to participate are generally issued annually to all employees.

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

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

Group pension scheme

Executive directors are eligible for membership of the NEXT Group Pension Plan which has been approved by 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 the defined contribution section of the scheme. Members elect to pay either 3% or 5% of their pensionable earnings which is matched by the Company. For death prior to retirement, a lump sum of three times the member's basic salary at the previous 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 is being 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, but subject to the limitation and possible change detailed below) 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. However, the Company has made a request to the Trustee that bonus is excluded from future defined benefit contributions and is replaced with an optional AVC alternative.

Members contribute 3% or 5% of pensionable earnings. The Company made contributions at the rate of 12.5% up to April 2003 and 13.4% thereafter. The most recent full actuarial valuation of the defined benefit section's financial position was undertaken as at 31 March 2002 and updated as at 31 March 2003. The update concluded that the scheme had a 32% deficit of assets compared to actuarial liabilities.

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 £99,000 per annum for 2003/2004. Members subject to the cap may be provided with appropriate benefits through an unfunded, unapproved arrangement in relation to that part of their earnings which exceeds the cap, where they so elect. The relevant members contribute towards the additional cost of providing these benefits by paying 5% of pensionable earnings in excess of the cap.

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

Notice periods

Each of the executive directors now has a rolling service contract which is terminable by the Company on giving one year's notice. The executive directors' service contracts were renewed on 28 November 2003. The most significant change was the reduction in notice period from two years to one year, with the exception of termination by the Company in the event of a takeover of the Group. No compensation was paid to any director in respect of this reduction. The Committee will ensure that in the event of any termination payment being made to a director full account will be taken of that director's duty to mitigate any loss and where appropriate the Committee may seek independent professional advice prior to authorising such payment.

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

Other benefits

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

Non-executive directors

Remuneration of the non-executive directors of the Company is determined by the 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 do not participate in any of the Group's pension, bonus, share option or other incentive schemes.

Information subject to audit

Directors' remuneration £'000	**Salary/fee**		**Performance related bonus**		**Benefits**		**Total**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Executive directors								
D C Jones	**250**	308	**–**	–	**33**	35	**283**	343
S A Wolfson	**506**	450	**345**	216	**29**	26	**880**	692
C E Angelides	**329**	300	**224**	144	**22**	21	**575**	465
D W Keens	**340**	300	**231**	204	**28**	27	**599**	531
A J Varley	**258**	250	**205**	120	**25**	25	**488**	395
Non-executive directors								
Sir Brian Pitman	**–**	50	**–**	–	**–**	–	**–**	50
R J O Barton	**35**	30	**–**	–	**–**	–	**35**	30
N G Brookes	**16**	–	**–**	–	**–**	–	**16**	–
J A Burdus	**28**	28	**–**	–	**–**	–	**28**	28
A C Mitchell-Innes	**60**	48	**–**	–	**–**	–	**60**	48
D N D Netherton	**35**	35	**–**	–	**–**	–	**35**	35
Lord A S Grabiner	**–**	13	**–**	–	**–**	–	**–**	13
Total	**1,857**	1,812	**1,005**	684	**137**	134	**2,999**	2,630

All 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, Mr N G Brookes who was appointed on 25 June 2003, 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 both years after taking account of gains on exercise of share options of £356,933 (2002: £nil) and the long term incentive plan. Mr D W Keens' benefits include an allowance chargeable to UK tax of £3,892 (2003: £3,243). Mr A J Varley's bonus includes £30,000 in respect of property transactions. Mr A C Mitchell-Innes is also a director and the Chairman of NEXT Pension Trustees Limited, for which in addition to the above he received a fee of £17,500 (2003: £17,500). The Company paid a pension under the unfunded, unapproved arrangement to a former director of the Company of £30,015 (2003: £29,597).

Long term incentive plan

Estimated monetary values were included in the January 2003 Remuneration Report for the three year performance plan which matured at that date based on a share price of 822p on 24 March 2003. Awards were made subsequent to the Report on 31 March 2003 when the share price was 849p. Adjustments to the estimated monetary value together with the final award have therefore been included in the table below.

A further three year performance period of the plan matured in January 2004. 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 92% of the maximum (equivalent to 64% 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 2004 and, based on the share price of 1362p on 22 March 2004, awards to directors would be as follows:

	January 2004		January 2003	
	Actual no. of shares	**Estimated value £000**	Adjustment to estimate £000	Final value £000
D C Jones	**–**	**–**	19	575
S A Wolfson	**29,326**	**399**	9	287
C E Angelides	**19,439**	**265**	7	214
D W Keens	**23,713**	**323**	9	281
A J Varley	**19,439**	**265**	7	225
	91,917	**1,252**	51	1,582

The performance periods of the annual long term incentive plans which mature in January 2005 and 2006 respectively are not yet complete and no entitlement has yet been earned. A charge of £3,146,000 (2003: £3,416,000) has been made in the accounts in respect of the estimate of the amount for awards relating to the year, of which approximately £1,306,000 (2003: £1,563,000) related to the executive directors.

The directors held the following provisional maximum awards over shares under the long term incentive plan for which the performance period was not completed as at 31 January 2004.

	No. of shares to January 2005	No. of shares to January 2006
S A Wolfson	34,370	40,732
C E Angelides	22,913	27,158
D W Keens	22,913	29,032
A J Varley	19,094	22,654
	99,290	119,576

The provisional maximum awards for the performance period to January 2006 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 the Chairman, 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 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 month's earnings in the ten years prior to retirement.

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

	Age at January 2004	Years of pensionable service	Accrued annual pension £000	Increase in accrued annual pension £000	Transfer value of accrued annual pension 2004 £000	Transfer value of accrued annual pension 2003 £000	Increase in transfer value less director's contributions £000
S A Wolfson	36	9	105	26	546	420	110
C E Angelides	40	11	97	30	615	452	148
D W Keens	50	17	180	23	1,666	1,516	127
A J Varley	53	20	165	16	1,841	1,570	254

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

Due to movements in bond yields, which underly the basis of calculation of transfer values, the increase in transfer values over the year can be significantly higher for members nearer to retirement than for younger members.

Mr 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			
	2004 No. of shares	2003 No. of shares	**2004 No. of shares**	**2004 Average exercise price (p)**	2003 No. of shares	2003 Average exercise price (p)
D C Jones	**356,000**	870,017	**–**	**–**	–	–
S A Wolfson	**1,773,384**	1,823,384	**2,340**	**707**	62,340	414
C E Angelides	**77,001**	36,863	**28,107**	**531**	53,107	441
R J O Barton	**2,000**	2,000	**–**	**–**	–	–
N G Brookes	**2,500**	–	**–**	**–**	–	–
J A Burdus	**1,000**	1,000	**–**	**–**	–	–
D W Keens	**239,000**	241,500	**2,664**	**571**	1,690	543
A C Mitchell-Innes	**8,500**	23,000	**–**	**–**	–	–
D N D Netherton	**5,000**	5,498	**–**	**–**	–	–
A J Varley	**100,739**	110,739	**2,148**	**630**	1,534	618

The executive directors are also (together with other employees) discretionary beneficiaries under the Group's ESOP Trust and, as such, were each considered to be interested in the 8,286,212 shares owned by the Trust at 31 January 2004.

No director held any share option with an option price above the market price on 31 January 2004. Share options granted to or exercised by directors during the year were as follows:

	No. of shares	Exercise price (p)	Market price (p)	Date of grant	Date of exercise
Management share options					
C E Angelides	25,000	340	999	–	14 May 2003
S A Wolfson	25,000	530	997	–	28 May 2003
S A Wolfson	25,000	340	997	–	28 May 2003
S A Wolfson	10,000	238	997	–	28 May 2003
Sharesave options					
D W Keens	974	620	–	4 February 2003	–
A J Varley	530	620	–	4 February 2003	–
A J Varley	84	920	–	17 October 2003	–

The total value of options exercised, being the excess of market price over the exercise price on the respective dates of exercise, was £521,683 (2003: £129,394). The market price of shares at 31 January 2004 was 1292p and the range during the year then ended was 700p to 1304p. Options expire at various dates up to September 2008.

There have been no changes to directors' interests in the shares of the Company from the end of the year to 22 March 2004. 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

25 March 2004

Consolidated Profit and Loss Account

For the financial year ended 31 January	Notes	**2004**	2003
		£m	£m
Turnover	1	**2,516.0**	2,202.6
Profit before interest	2	**370.6**	301.5
Net interest payable	4	**(17.3)**	(0.3)
Profit on ordinary activities before taxation		**353.3**	301.2
Taxation on profit on ordinary activities	5	**(108.1)**	(90.7)
Profit on ordinary activities after taxation		**245.2**	210.5
Dividends	7	**(89.3)**	(86.0)
Profit for the year transferred to reserves	22	**155.9**	124.5
Earnings per share	8	**92.1p**	68.7p
Diluted earnings per share	8	**91.2p**	68.1p

Consolidated Statement of Total Recognised Gains and Losses

For the financial year ended 31 January		**2004**	2003
		£m	£m
Profit attributable to members of the parent company		**245.2**	210.5
Exchange difference on translation of net assets of subsidiary undertakings		**(1.6)**	(4.6)
Total recognised gains and losses relating to the year	23	**243.6**	205.9

Group Balance Sheet

As at 31 January	Notes	2004	2003
		£m	£m
Fixed assets			
Goodwill	9	**36.2**	31.0
Tangible assets	10	**355.7**	323.1
Investments	11	**1.0**	0.5
Investment in own shares	12	**65.9**	47.0
		458.8	401.6
Current assets			
Property development stocks	13	**5.9**	9.1
Stocks	14	**263.5**	234.9
Debtors	15	**378.5**	318.1
Cash at bank and in hand		**62.3**	32.6
		710.2	594.7
Current liabilities			
Creditors: amounts falling due within one year	16	**576.6**	664.9
Net current assets/(liabilities)		**133.6**	(70.2)
Total assets less current liabilities		**592.4**	331.4
Creditors: amounts falling due after more than one year	17	**352.7**	37.0
Provision for liabilities and charges	19	**18.7**	19.3
Net assets		**221.0**	275.1
Capital and reserves			
Called up share capital	21	**26.5**	28.7
Share premium account	22	**0.6**	–
Revaluation reserve	22	**14.0**	14.8
Capital redemption reserve	22	**3.4**	1.2
Other reserves	22	**(1,448.9)**	(1,448.9)
Profit and loss account	22	**1,625.4**	1,679.3
Shareholders' funds	23	**221.0**	275.1

Approved by the Board on 25 March 2004

S A Wolfson Director
D W Keens Director

Consolidated Cash Flow Statement

For the financial year ended 31 January	Notes	2004 £m	2003 £m
Net cash inflow from operating activities	25	**402.2**	314.9
Returns on investments and servicing of finance			
Interest paid		**(9.7)**	(1.1)
Taxation			
UK corporation tax paid		**(91.8)**	(90.8)
UK corporation tax overpayment received		**–**	4.0
Overseas tax paid		**(4.5)**	(3.4)
		(96.3)	(90.2)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(99.8)**	(86.3)
Proceeds from disposal of fixed assets		**4.2**	3.1
Purchase of own shares by ESOP		**(40.2)**	(29.6)
Proceeds from disposal of shares by ESOP		**16.2**	12.3
		(119.6)	(100.5)
Acquisitions and disposals			
Disposal of subsidiary undertakings		**–**	(1.2)
Purchase of subsidiary undertakings		**–**	(24.6)
		–	(25.8)
Equity dividends paid		**(85.4)**	(88.4)
Cash inflow before management of liquid resources and financing		**91.2**	8.9
Management of liquid resources	26	**4.3**	152.8
Financing			
Issue of equity shares		**0.6**	–
Issue of preference shares		**–**	0.1
Company shares purchased for cancellation		**(209.0)**	(391.8)
Capital element of finance lease repayments		**(0.1)**	–
Unsecured bank loans		**(150.0)**	210.0
Issue of corporate bond		**300.0**	–
		(58.5)	(181.7)
Increase/(decrease) in cash in the year		**37.0**	(20.0)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		**37.0**	(20.0)
Cash realised from reduction in liquid resources		**(4.3)**	(152.8)
Decrease/(increase) in cash from unsecured bank loan		**150.0**	(210.0)
Cash inflow from corporate bond issue		**(300.0)**	–
Capital element of finance lease repayments		**0.1**	–
Changes in net funds resulting from cash flows	27	**(117.2)**	(382.8)
New finance leases	27	**(0.9)**	–
Movement in net debt in the period		**(118.1)**	(382.8)
Net (debt)/funds at January 2003	27	**(188.8)**	194.0
Net debt at January 2004	27	**(306.9)**	(188.8)

Company Balance Sheet

As at 31 January	Notes	2004	2003
		£m	£m
Fixed assets			
Investments	11	**2,477.7**	2,477.7
Investment in own shares	12	**65.9**	–
		2,543.6	2,477.7
Current assets			
Debtors	15	**203.7**	–
Cash at bank and in hand		**0.2**	1.1
		203.9	1.1
Current liabilities			
Creditors: amounts falling due within one year	16	**138.1**	150.0
Net current assets/(liabilities)		**65.8**	(148.9)
Total assets less current liabilities		**2,609.4**	2,328.8
Creditors: amounts falling due after more than one year	17	**300.0**	–
Net assets		**2,309.4**	2,328.8
Capital and reserves			
Called up share capital	21	**26.5**	28.7
Share premium account	22	**0.6**	–
Capital redemption reserve	22	**3.4**	1.2
Other reserves	22	**985.2**	985.2
Profit and loss account	22	**1,293.7**	1,313.7
Shareholders' funds		**2,309.4**	2,328.8

Approved by the Board on 25 March 2004

S A Wolfson Director
D W Keens Director

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 2004.

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%
All other plant, fixtures, fittings, IT assets and vehicles	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 earliest 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.

Stock

Stock is valued at the lower of cost or net realisable value. Net realisable value is based on estimated 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.

Finance leases

Assets used by the Group which have been funded through finance leases are capitalised in fixed assets and the resulting lease obligations are included in creditors. The assets are depreciated over their useful lives and the interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion the balance of capital repayments outstanding.

1 Segmental information

The results for the year are for the 52 weeks to 31 January 2004 (last year 53 weeks to 1 February 2003) with the exception of Ventura and certain other activities which relate to the year to 31 January.

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**	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
NEXT Retail	**1,809.3**	1,579.7	**259.4**	213.9		
NEXT Directory	**533.7**	471.7	**77.0**	65.1		
NEXT Brand	**2,343.0**	2,051.4	**336.4**	279.0	**103.1**	81.8
NEXT Franchise	**28.8**	22.7	**5.3**	4.4	**5.7**	17.0
Ventura	**112.0**	97.4	**15.4**	11.2	**43.9**	36.0
Other activities	**32.2**	31.1	**13.5**	6.9	**68.3**	140.3
	2,516.0	2,202.6	**370.6**	301.5	**221.0**	275.1

By geographical destination:	**Turnover 2004 £m**	Turnover 2003 £m	**Operating profit 2004 £m**	Operating profit 2003 £m	**Net assets 2004 £m**	Net assets 2003 £m
United Kingdom	**2,438.3**	2,131.4	**343.9**	278.8	**141.4**	209.6
Rest of Europe	**53.2**	49.7	**1.4**	1.2	**5.2**	7.6
North America	**–**	–	**0.2**	0.1	**0.3**	–
Middle East	**16.8**	13.6	**3.0**	2.4	**0.3**	–
Asia	**7.7**	5.5	**22.1**	18.9	**73.8**	57.9
Australasia	**–**	2.4	**–**	0.1	**–**	–
	2,516.0	2,202.6	**370.6**	301.5	**221.0**	275.1

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

2 Profit before interest

	2004 £m	2003 £m
Turnover	**2,516.0**	2,202.6
Cost of sales	**(1,762.5)**	(1,548.1)
Gross profit	**753.5**	654.5
Distribution costs	**(158.9)**	(145.0)
Administrative expenses	**(226.0)**	(210.7)
Group operating profit	**368.6**	298.8
Share of operating profit in associated undertakings	**2.0**	2.7
Profit before interest	**370.6**	301.5

2 Profit before interest (continued)

	2004 £m	2003 £m
Profit before interest is stated after charging/(crediting):		
Capital reconstruction expenses	**–**	3.0
Depreciation on assets		
Owned	**62.2**	59.1
Leased	**0.1**	–
Amortisation of goodwill	**4.4**	1.6
Operating lease rentals	**117.8**	102.3
Rent receivable	**(8.0)**	(8.3)
Auditors' remuneration	**0.3**	0.3

Non-audit services provided by Ernst & Young LLP with fees amounting to £0.1m (2003: £0.6m) were wholly attributable to work that they were best placed to perform through their position as auditor.

3 Staff costs

	2004 £m	2003 £m
Wages and salaries	**393.7**	325.4
Social security costs	**27.7**	19.7
Other pension costs (Note 35)	**17.6**	11.2
	439.0	356.3

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

	2004 £m	2003 £m
NEXT Brand	**345.5**	284.1
Ventura	**61.9**	48.4
Other activities	**31.6**	23.8
	439.0	356.3

	Average employees		Full time equivalents	
	2004 Number	2003 Number	**2004 Number**	2003 Number
NEXT Brand	**39,179**	32,580	**20,678**	17,400
Ventura	**4,366**	3,494	**3,836**	3,052
Other activities	**2,765**	2,600	**2,760**	2,595
	46,310	38,674	**27,274**	23,047

The Remuneration Report on pages 17 to 23 contains full details of the directors' emoluments for the year.

4 Net interest payable

	2004 £m	2003 £m
Bank and financial instruments	**0.1**	0.1
Other interest	**0.2**	1.1
Interest receivable	**0.3**	1.2
Interest payable	**(17.6)**	(1.5)
Net interest payable	**(17.3)**	(0.3)

Other interest receivable includes £nil (2003: £0.3m) in respect of the settlement of prior year taxation items.

5 Taxation on profit on ordinary activities

	2004 £m	2003 £m
The taxation charge based on the results for the year is made up as follows:		
Current tax:		
UK corporation tax on profits of the year	**108.0**	91.4
Adjustments in respect of previous years	**(2.1)**	(3.9)
	105.9	87.5
Overseas tax	**2.6**	2.6
Tax attributable to associated undertakings	**0.2**	0.1
Total current tax	**108.7**	90.2
Deferred tax (Note 20):		
Origination and reversal of timing differences	**(0.6)**	0.5
Taxation on profit on ordinary activities	**108.1**	90.7

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

	2004 %	2003 %
UK corporation tax rate	**30.0**	30.0
Expenses not deductible for tax purposes	**2.8**	2.3
Origination and reversal of timing differences	**(0.2)**	0.2
Overseas tax differentials	**(1.2)**	(1.3)
Prior year corporation tax	**(0.6)**	(1.3)
Effective current tax rate on ordinary activities	**30.8**	29.9
Deferred tax	**(0.2)**	0.2
Effective total tax rate on ordinary activities	**30.6**	30.1

6 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 profit on ordinary activities after taxation dealt with in the accounts of the holding company was £189.0m (2003: £nil).

7 Dividends

	2004	2003
	£m	£m
Interim dividend 11p (2003: 10p)	**29.1**	29.8
Final dividend 24p (2003: 21p)	**62.0**	57.4
Total dividend 35p per share (2003: 31p)	**91.1**	87.2
Adjustment to prior year final dividend on shares repurchased	**(1.8)**	(1.2)
	89.3	86.0

8 Earnings per share

The calculation of earnings per share is based on £245.2m (2003: £210.5m) being the profit for the year after taxation and 266.3m ordinary shares of 10p each (2003: 306.2m), 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 £245.2m (2003: £210.5m) being the profit for the year after taxation and 268.9m ordinary shares of 10p each (2003: 308.9m) being the weighted average number of shares used for the calculation of earnings per share above increased by the dilutive effect of potential ordinary shares from employee share option schemes of 2.6m shares (2003: 2.7m shares).

9 Goodwill

	Group
	£m
Cost	
At January 2003	**32.6**
Additions	**9.6**
At January 2004	**42.2**
Amortisation	
At January 2003	**1.6**
Provided during the year	**4.4**
At January 2004	**6.0**
Net book value	
At January 2004	**36.2**
At January 2003	31.0

Goodwill of £32.6m arose on the acquisition of NEXT Near East in July 2002. A further US dollar payment of deferred consideration is due to be made in 2007 based on the profits of the business acquired. The addition in the year reflects an increase in the amount estimated as payable to £27.4m (2003: £17.8m). This amount is included within creditors falling due after more than one year and will continue to be subject to revised estimates in future years.

10 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 2003					
At cost	67.0	7.9	7.7	455.3	**537.9**
At valuation	14.6	3.6	–	–	**18.2**
	81.6	11.5	7.7	455.3	**556.1**
Exchange movement	–	–	–	(0.4)	**(0.4)**
Additions	0.9	–	–	99.8	**100.7**
Disposals	(1.7)	–	(0.4)	(32.8)	**(34.9)**
At January 2004	**80.8**	**11.5**	**7.3**	**521.9**	**621.5**
At cost	67.9	8.0	7.3	521.9	**605.1**
At valuation	12.9	3.5	–	–	**16.4**
Depreciation					
At January 2003	7.5	1.4	7.7	216.4	**233.0**
Exchange movement	–	–	–	(0.2)	**(0.2)**
Provided during the year	1.8	0.2	–	60.3	**62.3**
Disposals	(0.2)	–	(0.4)	(28.7)	**(29.3)**
At January 2004	**9.1**	**1.6**	**7.3**	**247.8**	**265.8**
Net book value					
At January 2004	**71.7**	**9.9**	**–**	**274.1**	**355.7**
At January 2003	74.1	10.1	–	238.9	323.1

The net book value of plant and fittings above includes an amount of £0.8m (2003: £nil) in respect of assets held under finance lease contracts.

Certain of the Group's freehold and long leasehold properties were revalued at 25 December 1990 and 31 August 1985 at £14.7m 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 2004 is as follows:

	Group Freehold	Group Long leasehold
	£m	£m
Historical cost	70.0	8.4
Historical accumulated depreciation	(8.2)	(1.4)
	61.8	7.0

11 Investments

The Group	Subsidiary undertakings £m	Associated undertakings £m	**Total £m**
Cost			
At January 2003	–	0.7	**0.7**
Retained profit	–	0.5	**0.5**
At January 2004	**–**	**1.2**	**1.2**
Provision			
At January 2003 and January 2004	**–**	**0.2**	**0.2**
Net book value			
At January 2004	**–**	**1.0**	**1.0**
At January 2003	–	0.5	0.5
The Company			
Cost and net book value			
At January 2003 and 2004	***2,477.7***	**–**	***2,477.7***

12 Investment in own shares

	Group **£m**	Company **£m**
Cost		
At January 2003	**59.5**	**–**
Transfers	**–**	**71.1**
Additions	**40.2**	**11.4**
Issue of shares to Trust beneficiaries	**(26.9)**	**(9.7)**
At January 2004	**72.8**	**72.8**
Provision		
At January 2003	**12.5**	**–**
Transfers	**–**	**8.7**
Provided during the year	**5.1**	**2.6**
Utilised during the year	**(10.7)**	**(4.4)**
At January 2004	**6.9**	**6.9**
Net book value		
At January 2004	**65.9**	**65.9**
At January 2003	47.0	–

The Group established the NEXT Employee Share Ownership Plan Trust (the '1994 ESOP') in 1994 which has an independent professional trustee resident in Jersey. The 1994 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. Following the capital reconstruction in 2002, the Company established the NEXT 2003 Employee Share Ownership Plan Trust (the '2003 ESOP') which is administered by the same Trustee. On 2 August 2003, the assets and liabilities of the 1994 ESOP were transferred to the 2003 ESOP.

At 31 January 2004 the Trustee owned 8,286,212 (2003: 7,470,435) ordinary shares of 10p each in the Company, the market value of which amounted to £107.1m (2003: £56.8m). Details of outstanding share options are shown in Note 21.

12 Investment in own shares (continued)

The assets, liabilities, income and costs of the 2003 ESOP and the 1994 ESOP have both been incorporated into the accounts of the Group. The assets, liabilities and costs of the 2003 ESOP have been incorporated into the accounts of the Company. The anticipated deficit incurred by the 1994 ESOP and the 2003 ESOP in the year totalling £5.1m (2003: £8.2m) 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 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 earliest exercise date. The ordinary shares of 10p each in the Company held by the 2003 ESOP at 31 January 2004 have been included in the balance sheets of the Group and the Company as a fixed asset at a net book value of £65.9m (2003: £47.0m). The Trustee has waived dividends paid in the year on shares held by the 1994 ESOP and the 2003 ESOP.

13 Property development stocks

	Group	
	2004	2003
	£m	£m
Cost	**8.2**	11.4
Less provision	**(2.3)**	(2.3)
Estimated net realisable value	**5.9**	9.1

The gross cost of property development stocks at 31 January 2004 includes capitalised interest amounting to £0.8m (2003: £0.8m). No interest has been capitalised in the year or in the previous year.

14 Stock

	Group	
	2004	2003
	£m	£m
Raw materials and work in progress	**8.2**	4.2
Finished goods and goods for resale	**255.3**	230.7
	263.5	234.9

15 Debtors

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade and customer debtors	**300.9**	244.6	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**198.4**	–
Amounts due from associated undertakings	**2.7**	5.9	**–**	–
Other debtors	**12.8**	7.9	**2.0**	–
Taxation	**–**	–	**3.3**	–
Prepayments and accrued income	**60.0**	52.7	**–**	–
	376.4	311.1	**203.7**	–
Amounts falling due after more than one year:				
Trade and customer debtors	**2.1**	3.7	**–**	–
Other debtors	**–**	3.3	**–**	–
	2.1	7.0	**–**	–
Total debtors	**378.5**	318.1	**203.7**	–

16 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Bank overdrafts	**8.4**	11.4	**–**	–
Unsecured bank loans	**60.0**	210.0	**–**	–
Trade creditors	**131.9**	108.0	**–**	–
Obligations under finance leases (Note 18)	**0.2**	–	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**71.3**	91.9
Corporation tax payable	**59.9**	48.1	**–**	–
Other taxation and social security	**42.6**	42.0	**–**	–
Other creditors and accruals	**211.6**	187.3	**4.8**	–
Proposed dividend	**62.0**	58.1	**62.0**	58.1
	576.6	664.9	**138.1**	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 medium term bank revolving credit facility committed until September 2007.

At 31 January the Group had given indemnities of £28.0m (2003: £28.0m) in favour of various surety companies in respect of bonds given by them to HM Customs & Excise, which were reduced to £11.0m from 1 February 2004. The Group has also given guarantees of £12.6m (2003: £13.9m) to bankers in respect of the borrowings of certain subsidiary and associated undertakings.

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Corporate bond	**300.0**	–	**300.0**	–
Obligations under finance leases (Note 18)	**0.6**	–	**–**	–
Other creditors and accruals	**52.1**	37.0	**–**	–
	352.7	37.0	**300.0**	–

The corporate bond is repayable in 2013 and bears interest at the rate of 5.25%

18 Obligations under finance leases

	Group	
	2004	2003
	£m	£m
Amounts payable:		
Within one year	**0.2**	–
In two to five years	**0.7**	–
	0.9	–
Less: finance charges allocated to future periods	**(0.1)**	–
	0.8	–
Finance lease contracts are analysed as follows:		
Current obligations (Note 16)	**0.2**	–
Non-current obligations (Note 17)	**0.6**	–
	0.8	–

19 Provision for liabilities and charges

	Group	
	2004	2003
	£m	£m
Vacant property costs	**10.0**	10.0
Deferred tax (Note 20)	**8.7**	9.3
	18.7	19.3

The movement in the year on the vacant property provision is as follows:

	Group
	£m
At January 2003	**10.0**
Charged during the year	**1.0**
Utilised	**(1.0)**
At January 2004	**10.0**

20 Deferred taxation

	Group	
	2004	2003
	£m	£m
Accelerated capital allowances	**20.5**	20.4
Other timing differences	**(11.8)**	(11.1)
Deferred taxation liability	**8.7**	9.3

The movement in the year is as follows:

	Group
	£m
At January 2003	**9.3**
Deferred tax credit	**(0.6)**
At January 2004	**8.7**

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

	Group	
	2004	2003
	£m	£m
Property development trading losses	**2.6**	3.1
Capital losses, net of rolled over gains	**30.5**	31.4
Total potential deferred tax assets	**33.1**	34.5

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.

21 Called up share capital

The share capital of the Company is shown below:

	2004 '000	2003 '000	**2004 £m**	2003 £m
Authorised				
Ordinary shares of 10p each	**400,500**	400,500	**40.1**	40.1
Allotted, called up and fully paid				
Ordinary shares of 10p each	**265,071**	286,746	**26.5**	28.7

The Company purchased 21,740,939 of its own ordinary shares of 10p each in the open market for cancellation between 31 March 2003 and 19 December 2003 at a cost of £209.0m.

On 31 March 2003, 65,891 ordinary shares of 10p each were issued for cash consideration of £0.6m.

Share options

The following options have been granted and remain outstanding at 31 January 2004 in respect of ordinary shares of 10p each in the Company:

Number of shares	9,315,338 (2003: 8,966,951)
Prices at which options are exercisable	237.67p – 1058p
Weighted average	807.0p (2003: 700.8p)
Period during which options are exercisable	Up to April 2013

22 Share capital and reserves

The Group	Ordinary shares £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
At January 2003	28.7	–	14.8	1.2	(1,448.9)	1,679.3
New share capital issued	–	0.6	–	–	–	–
Shares purchased for cancellation	(2.2)	–	–	2.2	–	(209.0)
Transfer of depreciation on revalued property	–	–	(0.3)	–	–	0.3
Transfer of realised property profits	–	–	(0.5)	–	–	0.5
Exchange movement	–	–	–	–	–	(1.6)
Profit transferred for the year	–	–	–	–	–	155.9
At January 2004	**26.5**	**0.6**	**14.0**	**3.4**	**(1,448.9)**	**1,625.4**

The Company						
At January 2003	*28.7*	*–*	*–*	*1.2*	*985.2*	*1,313.7*
New share capital issued	*–*	*0.6*	*–*	*–*	*–*	*–*
Shares purchased for cancellation	*(2.2)*	*–*	*–*	*2.2*	*–*	*(209.0)*
Profit transferred for the year	*–*	*–*	*–*	*–*	*–*	*189.0*
At January 2004	***26.5***	***0.6***	***–***	***3.4***	***985.2***	***1,293.7***

22 Share capital and reserves (continued)

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 (£1,460.7m) less share premium account (£3.8m) and capital redemption reserve (£8.7m) at the time of capital reconstruction in 2002 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).

23 Reconciliation of shareholders' funds

	2004 £m	2003 £m
Total recognised gains and losses (Page 24)	**243.6**	205.9
Dividends	**(89.3)**	(86.0)
Shares purchased for cancellation	**(209.0)**	(391.7)
New ordinary share capital issued	**0.6**	–
New preference share capital issued	**–**	0.1
Preference shares redeemed	**–**	(0.1)
Total movement during the year	**(54.1)**	(271.8)
Shareholders' funds at January 2003 (Page 25)	**275.1**	546.9
Shareholders' funds at January 2004 (Page 25)	**221.0**	275.1

24 Note of historical cost profits and losses

	2004 £m	2003 £m
Reported profit on ordinary activities before taxation	**353.3**	301.2
Realisation of property revaluation profits of previous years	**0.5**	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	**354.1**	301.6
Historical cost profit for the year retained after taxation and dividends	**156.7**	124.9

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

	2004 £m	2003 £m
Operating profit before interest	**370.6**	301.5
Depreciation	**62.3**	59.1
Amortisation of goodwill	**4.4**	1.6
Loss on disposal of fixed assets	**1.4**	0.1
Anticipated deficit in ESOP	**5.1**	8.2
Income from interest in associated undertakings	**(0.7)**	(0.4)
Increase in stock	**(25.6)**	(62.8)
Increase in debtors	**(61.9)**	(39.7)
Increase in creditors	**48.3**	52.1
Exchange movement	**(1.7)**	(4.8)
Net cash inflow from operating activities	**402.2**	314.9

26 Cash flow: management of liquid resources

	2004	2003
	£m	£m
Cash placed on short term deposits	**(33.0)**	(173.9)
Cash withdrawn from short term deposits	**37.3**	326.7
Cash inflow from management of liquid resources	**4.3**	152.8

27 Cash flow: analysis of net debt

	January 2003 £m	Cash flow £m	Other non-cash changes £m	**January 2004 £m**
Cash in hand	25.3	32.0	–	**57.3**
Overnight (borrowings)/deposits	(10.0)	12.0	–	**2.0**
Overdrafts	(1.4)	(7.0)	–	**(8.4)**
	13.9	37.0	–	**50.9**
Short term deposits	7.3	(4.3)	–	**3.0**
Unsecured bank loans	(210.0)	150.0	–	**(60.0)**
Corporate bond	–	(300.0)	–	**(300.0)**
Finance leases	–	0.1	(0.9)	**(0.8)**
Total	(188.8)	(117.2)	(0.9)	**(306.9)**

28 Financial instruments

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

29 Financial instruments: interest rate risk profile

The interest rate profile of financial assets and liabilities at 31 January 2004 was as follows:

		2004			2003	
Financial assets:	**Floating**	**Nil**	**Total**	Floating	Nil	Total
Currency	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**44.8**	**0.1**	**44.9**	23.1	1.2	24.3
Hong Kong dollar	**8.9**	**–**	**8.9**	8.0	0.2	8.2
US dollar	**8.3**	**0.1**	**8.4**	2.7	0.4	3.1
Other	**–**	**0.1**	**0.1**	–	0.3	0.3

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 and US dollar bank deposits at Prime rates.

				2004			2003
Financial liablities:	**Fixed**	**Floating**	**Nil**	**Total**	Fixed	Floating	Total
Currency	**£m**	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**200.6**	**167.6**	**–**	**368.2**	–	221.4	221.4
US dollar	**–**	**–**	**27.4**	**27.4**	–	–	–
Other	**–**	**0.8**	**–**	**0.8**	–	–	–

Fixed rate financial liabilities principally comprise Sterling denominated fixed rate corporate bonds with a weighted average interest rate of 4.74%, fixed for a weighted average period of 3.2 years. Floating rate financial liabilities principally comprise Sterling denominated fixed rate corporate bonds which are subject to interest rate hedging arrangements and Sterling denominated bank loans and overdrafts that bear interest at rates based on LIBOR and UK bank base rates respectively. Financial liabilities on which no interest is paid relate to deferred consideration payable in 2007.

30 Financial instruments: foreign currency assets and liabilities

Foreign currency net monetary assets/(liabilities) at 31 January 2004 were as follows:

Functional currency of Group operation	Sterling £m	US dollar £m	HK dollar £m	Euro £m	Other £m	Total £m
2004:						
Sterling	**–**	**(30.6)**	**(0.5)**	**(8.9)**	**(0.3)**	**(40.3)**
US dollar	**1.9**	**–**	**–**	**–**	**(0.1)**	**1.8**
Hong Kong dollar	**1.0**	**2.3**	**–**	**–**	**–**	**3.3**
	2.9	**(28.3)**	**(0.5)**	**(8.9)**	**(0.4)**	**(35.2)**
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)

31 Financial instruments: committed borrowing facilities

The committed facilities available at 31 January 2004 in respect of which all conditions precedent had been met were as follows:

	2004 £m	2003 £m
Expiring in more than two years, but not more than five years	**350.0**	250.0

£290.0m of this facility was not drawn down at 31 January 2004 (2003: £40.0m).

32 Financial instruments: fair value

The fair values of financial assets and liabilities calculated at market rates at 31 January 2004 were as follows:

	Notional amount £m	Carrying amount £m	Fair value amount £m
2004:			
Foreign currency forward contracts	**279.1**	**–**	**(11.9)**
Foreign currency option contracts	**284.4**	**–**	**(13.1)**
Interest rate derivative contracts	**600.0**	**–**	**(12.9)**
Short term and overnight deposits	**–**	**5.0**	**5.0**
Cash at bank and in hand	**–**	**57.3**	**57.3**
Unsecured bank loans due within one year	**–**	**(60.0)**	**(60.0)**
Other borrowings falling due within one year	**–**	**(8.4)**	**(8.4)**
Corporate bond	**–**	**(300.0)**	**(300.0)**
Obligations under finance leases falling due after more than one year	**–**	**(0.6)**	**(0.6)**

32 Financial instruments: fair value (continued)

	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)

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 31 January 2004 were US dollar 1.82 (2003: 1.64) and Euro 1.47 (2003: 1.53).

The interest rate derivative contracts amounting to £600m comprise: £300m of fixed to floating rate swaps with a duration remaining of 9.3 years and matched against the Sterling fixed rate bond issued during the year; £200m of floating to fixed rate swaps with an average duration remaining of 3.2 years; and £100m representing the purchase of a £50m interest rate cap and the sale of a £50m interest rate floor, each with a duration remaining of one year.

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 £9.4m of unrealised net losses on interest rate derivative contracts due to mature after January 2005, all of the unrealised net losses of £37.9m at 31 January 2004 on currency and interest rate instruments are expected to be dealt with in the profit and loss account for the year to January 2005. £21.2m of the unrealised net losses of £21.8m at 1 February 2003 on currency and interest rate instruments were dealt with in the profit and loss account for the year to January 2004.

33 Capital commitments

	2004 £m	2003 £m
Contracted for but not provided in these accounts	**19.3**	8.6

In addition at 1 February 2003 the Company had contracted to purchase 3.1m of its own ordinary shares for cancellation at a cost of £23.9m. No such contracts existed at 31 January 2004.

34 Commitments under operating leases

	Land and buildings £m	Other £m	**2004 Total £m**	2003 Total £m
The Group				
Commitment expires in year to January 2005	5.2	1.0	**6.2**	5.3
Commitment expires February 2005 to January 2009	9.8	5.6	**15.4**	13.4
Commitment expires beyond January 2009	112.3	0.1	**112.4**	97.4
Payments to be made in year to January 2005	127.3	6.7	**134.0**	116.1

35 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 and was updated as at 31 March 2003.

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 three 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 two and a half 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 2003, the market value of the assets of the defined benefit section was £156m representing 68% of the liability for benefits that had accrued to members after allowing for expected future increases in earnings. A charge of £6m has been recognised in the year (2003: nil) as a variation in regular pension cost in respect of this deficit. The regular pension cost amounted to £10.3m (2003: £9.8m). From February 2003 the Group increased employer contributions to the scheme from 12.3% to 12.5% and increased them further to 13.4% with effect from April 2003. Employer contributions of £15.6m (2003: £12.7m) were made in the year including a £5m (2003: £2.5m) contribution in respect of the deficit on the defined benefit section and contributions of £1.1m (2003: £0.7m) in respect of the defined contribution section. Pension contributions for the Group will continue to be set at a level that takes account of the past service funding position of the scheme. Full pension costs of the Group amounted to £17.6m (2003: £11.2m) 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 £20.9m (2003: £19.1m). 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 31 January 2004.

The information required for disclosure in accordance with FRS 17 Retirement Benefits is based on the most recent full actuarial valuation as at 31 March 2002 and updated to 31 January 2004 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 2004	January 2003	January 2002
Discount rate	**5.50%**	5.25%	5.50%
Salary increases	**4.25%**	4.00%	4.00%
Inflation	**2.75%**	2.25%	2.25%
Pension increases	**2.75%**	2.25%	2.25%
Increases to deferred benefits during deferment	**2.75%**	2.25%	2.25%

35 Pension commitments (continued)

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

	Long term rate of return expected			Value at January		
	2004	2003	2002	**2004**	2003	2002
				£m	£m	£m
Equities	**7.0%**	7.0%	7.0%	**158.5**	120.2	159.8
Bonds	**5.25%**	5.0%	5.25%	**29.6**	18.4	23.5
Property	**7.0%**	7.0%	7.0%	**5.9**	2.1	8.9
Other	**4.5%**	4.5%	4.75%	**8.0**	10.5	3.9
Total market value of assets				**202.0**	151.2	196.1

	2004	2003
	£m	£m
Total market value of assets	**202.0**	151.2
Present value of scheme liabilities	**(288.4)**	(252.9)
Deficit in the scheme	**(86.4)**	(101.7)
Related deferred tax asset	**25.9**	30.5
Net pension liability under FRS 17	**(60.5)**	(71.2)

The following amounts would be included within operating profit:

	2004	2003
	£m	£m
Current service cost	**11.8**	11.8
Total	**11.8**	11.8

As a result of the Plan being closed to new entrants, it is anticipated that the service cost will increase, as a percentage of total pensionable earnings, as the members of the plan approach retirement.

The following amounts would be included within other finance income:

	2004	2003
	£m	£m
Expected return on scheme assets	**10.3**	13.2
Interest on scheme liabilities	**(13.5)**	(11.7)
Net finance return	**(3.2)**	1.5

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

	2004	2003
	£m	£m
Difference between actual and expected return on scheme assets	**30.6**	(59.8)
Experience losses arising on scheme liabilities	**(5.0)**	(11.7)
Effects of changes in assumptions underlying the present value of scheme liabilities	**(9.8)**	(13.7)
Total actuarial gains/(losses) recognised in the Statement of Total Recognised Gains and Losses	**15.8**	(85.2)

35 Pension commitments (continued)

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 15% (2003: 40%) of the scheme assets at 31 January 2004. The experience losses arising on scheme liabilities represents 2% (2003: 5%) and the total actuarial gain (2003: actuarial loss) represents 6% of scheme liabilities (2003: 34%).

	Net assets		Profit and loss reserve	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Group position (Page 25)	**221.0**	275.1	**1,625.4**	1,679.3
Pension accrual under SSAP 24 less related deferred tax asset	**14.6**	13.4	**14.6**	13.4
Group position excluding pension liability	**235.6**	288.5	**1,640.0**	1,692.7
Pension liability under FRS 17	**(60.5)**	(71.2)	**(60.5)**	(71.2)
Group position including pension liability	**175.1**	217.3	**1,579.5**	1,621.5

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

	2004	2003
	£m	£m
Opening deficit	**(101.7)**	(18.9)
Current service cost	**(11.8)**	(11.8)
Contributions	**14.5**	12.7
Finance (deficit)/income	**(3.2)**	1.5
Actuarial gains/(losses)	**15.8**	(85.2)
Closing deficit	**(86.4)**	(101.7)

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 31 January 2004. 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[1]	Retailing of womenswear, menswear, childrenswear, home products, accessories and fashion jewellery
The NEXT Directory[2]	Home shopping for womenswear, menswear, childrenswear, home products, accessories and fashion jewellery
Next Financial Services Limited[1]	Credit card handling and settlement services
Club 24 Limited[1]	Customer and financial services management
Ventura[3]	Customer and financial services management
First Retail Finance Limited[1]	Customer and financial services management
NEXT (Asia) Limited[1]	Overseas sourcing services (Hong Kong)
NEXT Near East[4]	Overseas sourcing services (Hong Kong, Sri Lanka)
NEXT Distribution Limited[1]	Warehousing and distribution services

Associated undertakings

Choice Discount Stores Limited[1]	Retailing (40%)
Cotton Traders Holdings Limited[1]	Home shopping and retailing (30%)

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

Independent Auditor's Report

To the shareholders of NEXT plc

Accounts for the year ended 31 January 2004
We have audited the Group's accounts for the year ended 31 January 2004 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Group Balance Sheet, Consolidated Cash Flow Statement, Company Balance Sheet, Accounting Policies, the related notes 1 to 35 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 Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Remuneration Report and the 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 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 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 Remuneration Report, Corporate Governance statement, Half Year and Sector Analysis, Five Year History and Notice of Meeting. 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 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 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 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 31 January 2004 and of the profit of the Group for the year then ended; and
- the accounts and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor

Birmingham
25 March 2004

Half Year Sector Analysis

Year ended January

	First half £m	Second half £m	2004 £m	First half £m	Second half £m	2003 £m
Turnover						
NEXT Retail	**797.4**	**1,011.9**	**1,809.3**	656.0	923.7	1,579.7
NEXT Directory	**247.1**	**286.6**	**533.7**	215.3	256.4	471.7
NEXT Franchise	**13.2**	**15.6**	**28.8**	10.0	12.7	22.7
Ventura	**52.9**	**59.1**	**112.0**	49.7	47.7	97.4
Other activities	**10.4**	**21.8**	**32.2**	13.8	17.3	31.1
	1,121.0	**1,395.0**	**2,516.0**	944.8	1,257.8	2,202.6

	First half £m	Second half £m	2004 £m	First half £m	Second half £m	2003 £m
Profit before tax						
NEXT Retail	**85.8**	**173.6**	**259.4**	74.5	139.4	213.9
NEXT Directory	**30.2**	**46.8**	**77.0**	30.2	34.9	65.1
NEXT Franchise	**2.4**	**2.9**	**5.3**	1.9	2.5	4.4
Ventura	**5.9**	**9.5**	**15.4**	5.0	6.2	11.2
Other activities	**8.6**	**10.0**	**18.6**	6.5	8.6	15.1
ESOP charge	**(2.5)**	**(2.6)**	**(5.1)**	(4.5)	(3.7)	(8.2)
Profit before interest	**130.4**	**240.2**	**370.6**	113.6	187.9	301.5
Net interest payable	**(7.2)**	**(10.1)**	**(17.3)**	2.2	(2.5)	(0.3)
Profit before tax	**123.2**	**230.1**	**353.3**	115.8	185.4	301.2

Five Year History

Year ended January	**2004**	2003	2002	2001	2000
	£m	£m	£m	£m	£m
Turnover	**2,516.0**	2,202.6	1,871.7	1,588.5	1,425.4
Profit before interest	**370.6**	301.5	258.6	213.8	186.8
Net interest (payable)/receivable	**(17.3)**	(0.3)	7.2	4.6	7.9
Profit before taxation	**353.3**	301.2	265.8	218.4	194.7
Taxation	**(108.1)**	(90.7)	(76.0)	(60.8)	(54.5)
Profit after taxation	**245.2**	210.5	189.8	157.6	140.2
Dividends	**(89.3)**	(86.0)	(89.0)	(73.7)	(76.4)
Profit transferred to reserves	**155.9**	124.5	100.8	83.9	63.8
Shareholders' funds	**221.0**	275.1	546.9	499.7	606.7
Shares purchased for cancellation	**21.7m**	43.9m	6.4m	37.4m	–
Dividend per share	**35.0p**	31.0p	27.5p	24.0p	21.0p
Earnings per share	**92.1p**	68.7p	58.1p	46.8p	38.4p

Notice of Meeting

Notice is hereby given that the Annual General Meeting of NEXT plc will be held at One Great George Street, Westminster, London, SW1P 3AA on Thursday 13 May 2004 at 11.00 a.m. at which the following resolutions will be proposed; resolutions 1 to 7 as Ordinary Resolutions and 8 to 9 as Special Resolutions.

Ordinary business

1 To receive and adopt the accounts and reports of the directors and auditors for the period ended 31 January 2004.

2 To approve the remuneration report for the year ended 31 January 2004.

3 To declare a final dividend of 24p per share in respect of the period ended 31 January 2004.

4 To elect Nick Brookes as a director who retires according to Article 97 having been appointed by the Board during the year.

5 To re-elect David Keens as a director who retires by rotation according to Article 91.

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

Biographies of directors seeking re-election are shown on page 9 of the Annual Report.

Special business

To consider and, if thought fit, pass the following resolutions, of which resolution 7 will be proposed as an Ordinary Resolution and resolutions 8 and 9 as Special Resolutions. Resolutions 7 and 8 have been proposed to accommodate the purchase and sale of treasury shares following recent changes in company law.

7 That the directors be and they are hereby authorised to alter the rules of any of the Company's employee share option schemes to permit options to be granted over treasury shares (in accordance with the Companies Act 1985), provided that such use of treasury shares shall count towards the limits governing the issues of new shares in the rules of the relevant schemes.

8 That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act"), in substitution for any existing authority to allot relevant securities, to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority conferred by resolutions 14 and 15 passed at the Annual General Meeting of the Company on 13 May 2003 for cash and sell relevant shares (as defined in Section 94 of the Act) held by the Company as treasury shares (as defined in Section 162A of the Act) for cash, as if Section 89(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to:

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

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities and the sale of treasury shares up to an aggregate nominal value of £1,300,000 being less than 5% of the issued ordinary share capital outstanding at 23 March 2004 and shall expire on 13 May 2008 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

9 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 39,000,000 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 2005;

(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.

A J R McKinlay, Secretary
Registered Office
Desford Road, Enderby
Leicester, LE19 4AT **13 April 2004**

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 2004 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 2004 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 2004 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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

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

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

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 2004 to holders of ordinary shares registered on 28 May 2004. The ordinary shares will trade ex-dividend from 26 May 2004.

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 Thursday 13 May 2004 at One Great George Street, Westminster, London, SW1P 3AA. The notice of the meeting on pages 51 and 52 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 2004.**

Share price data

	2004	2003
Share price at 31 January	**1292p**	760p
Market capitalisation	**£3,425m**	£2,179m
Share price movement during year:		
High mid-market quotation	**1304p**	1096.5p
Low mid-market quotation	**700p**	717p

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.

NEXT

www.next.co.uk

www.nextflowers.co.uk