# FULL YEAR RESULTS

## Full year results

**Chairman’s Statement**

As anticipated, the year to January 2009 was a challenging year for Next. Revenue fell by 1.7% to £3,272 million and earnings per share, our primary financial measure, fell by 7.5% to 156p. However, we delivered profit before tax of £429m and reduced net debt by £111m to £629m.

The Board is pleased to recommend a final dividend of 37p making 55p for the year, the same as last year, which is covered 2.8 times by earnings.

Trading conditions in the year ahead will continue to be tough. The current economic climate in the UK is unstable and this brings short term volatility in our sales which, in turn, makes forecasting difficult. In addition, the weakness of Sterling against the US Dollar and the Euro, our main purchasing currencies, has brought further challenges to our buying teams. Their response has been excellent, working hard with our suppliers to protect our customers from unaffordable price increases and our own margins, as far as possible.

Next has a number of assets and opportunities which will enable us to trade through the year as successfully as possible:

- An experienced and stable management team who are responding extremely well to their current challenges.
- A powerful and efficient operating model.
- A strong financial position with modest debt and excellent cash flows.
- A weakening property market which is already providing us with interesting opportunities for profitable new Retail stores.
- The Next Directory, and its strong internet presence, which gives us the base to extend our product offering.

Our strategy remains as it was last year; to concentrate on the design, quality and value of our product, together with excellent customer service and delivery. We believe this will serve us well through the current recessionary period and leave us well placed when the recovery begins.

As we go through difficult trading periods we depend heavily on our management team, all of our staff and, in particular this year, the support of our suppliers. I would like to thank them all for the contribution they have made and their continuing support.

**John Barton**
**Chairman**
**Chief Executive's Review**
**OVERVIEW**

Next has emerged from a difficult year in good financial health, with solid net margins, a robust balance sheet, strong positive cash flow and secure financing. During the year we focused on managing our costs and continued to invest in the Next Brand through improved product ranges, stores and marketing. Whilst we do not underestimate the difficulties presented by the year ahead, we believe we are well prepared to meet the challenges of the continued economic downturn.

**PROGRESS DURING YEAR**

Anticipating a difficult year we set ourselves four key objectives; set realistic sales budgets, control stock, control costs and continue to invest in the Brand. During the year:

- We came within the guidance for sales set out in March 2008. Retail like for likes were down -6.5%, within the guidance range of -3% to -7%. Directory sales were up 2.1%, just ahead of our range of 0% to 2%.
- Stock for the end of season Sales across Retail and Directory was down 10% as a result of realistic budgets and much improved stock control.

- We continued to make operational cost savings.
- We continued to invest in the Next Brand, spending £39m refitting stores, maintaining advertising spend and improving the quality and design of our clothing and Home ranges.

## GROUP PROFIT

Group operating profit declined by -11.0% to £478m. Profits in the core Next Brand businesses (Retail, Directory, International and Sourcing) were down just -7%. The main decline elsewhere was in our outsourcing subsidiary, Ventura.

Last year's share buybacks meant the -11% drop in operating profits resulted in only a -7.5% fall in earnings per share, due to the lower average number of shares in issue.

| | **Revenue excluding VAT** | | **Profit & Earnings per share** | | |
|---|---|---|---|---|---|
| | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m | |
| Next Retail | **2,197.9** | 2,255.1 | **288.8** | 319.9 | |
| Next Directory | **816.4** | 799.8 | **157.6** | 164.4 | |
| The Next Brand | **3,014.3** | 3,054.9 | **446.4** | 484.3 | **-7.8%** |
| Next International | **68.6** | 54.1 | **9.0** | 7.1 | |
| Next Sourcing | **5.9** | 6.4 | **32.0** | 32.8 | |
| Ventura | **161.9** | 203.7 | **5.1** | 21.5 | |
| Other activities | **20.8** | 10.0 | **(2.0)** | (2.1) | |
| Share option charge | **-** | - | **(8.9)** | (8.8) | |
| Unrealised exchange (loss)/gain | **-** | - | **(3.3)** | 2.3 | |
| Revenue & operating profit | **3,271.5** | 3,329.1 | **478.3** | 537.1 | **-11.0%** |
| Net interest expense | | | **(49.5)** | (39.0) | |
| Profit before tax | | | **428.8** | 498.1 | **-13.9%** |
| Taxation | | | **(126.5)** | (144.2) | |
| Profit after tax | | | **302.3** | 353.9 | **-14.6%** |
| Basic earnings per share | | | **156.0p** | 168.7p | **-7.5%** |

## PRODUCT, PRICING AND MARKET POSITION

We have been much happier with the positioning and fashion content of our product ranges and in particular the improvements to our women's ranges. We have significantly improved the levels of newness introduced throughout the year and been more aggressive in backing new trends. We have been taking more fashion risks and taking significant positions in new looks without firm evidence that they will materialise into sales. Whilst this may seem counter-intuitive, the way for a fashion business to be successful is by taking fashion risks.

Next maintained its long standing practice of providing customers with certainty over pricing and was one of the few retailers not to mark stock down in the run up to Christmas. Whilst we recognise that this will have reduced our sales potential during this period, it allowed us to maintain our margins and significantly reduce markdown costs year on year.

Going forward we believe the increase in promotional activity on the High Street will continue, albeit that more realistic budgeting in the sector may result in less markdown immediately prior to Christmas. Next intends to continue trading at full price at all times, other than at our traditional end of season and mid-season Sales. Any increase in promotional activity must logically involve either the surrender of margin, or the artificial raising of initial prices in order to offer them as a "bargain" at a later date. Whilst some have made a success of this strategy, we do not believe that this would be right for the Next Brand.

Next's market position at the top end of the mass market is not the most comfortable place to be during a recession and we have two alternatives. We can make the best of our current position by providing customers with what they expect from Next; namely exciting, beautifully designed, great quality clothing and homeware. Alternatively, we could engineer our product ranges to lower price points at the expense of design and quality. We have decided that we will not devalue our ranges and will maintain our market position. We believe that in the long term this integrity will provide us with a solid platform for growth when the economy recovers.

That is not to say we can afford to be complacent about price. We believe there are opportunities to improve opening price points in some areas, without sacrificing quality and design content.

## NEXT RETAIL

### Retail Sales

Retail sales finished the full year down -2.5%, in line with our expectations. As a result of effective stock control we put 15% less stock into the end of season Sales. Therefore, full price sales differ from total sales, which include markdown, as set out below:

| | Full price only | Total sales including markdown |
|---|---|---|
| Sales | - 2.1% | - 2.5% |
| Like for like sales | - 6.1% | - 6.5% |

### New Space and Refits

We increased trading space by 305,000 square feet in the full year, increasing our portfolio to 510 stores. The payback on the net capital invested in new space is forecast to be 19 months. The net store contribution is forecast to be 17%. These results are comfortably ahead of our financial hurdles of 24 months payback and 15% contribution. We expect to open a total of 260,000 square feet in the year ahead.

Whilst the market for homeware is difficult at present, we believe there are significant long term opportunities for Next to gain market share in this area. To this end we have opened 10 stand alone Home stores, all are successful apart from our only city centre store. The 9 out of town stand alone stores are forecast to make a contribution of 23% and pay back the capital invested in 18 months. This year, 120,000 square feet of the new space will be stand alone Home stores in out of town locations.

We continue to invest in improving our stores and we are pleased with the progress made so far. During the year we spent £39m updating our stores and 66% of our space is now new, refitted, or redecorated. This year we intend to spend £21m on refits and this will take the modernised space to 85% of our total space.

### Retail Profit

Retail profit declined by -9.7% in the year. In line with our forecast in March 2008, Retail net margins were down -1.1%. The margin movement is detailed below; the figures show the change as a percentage of sales for each of our major heads of cost:

| | | |
|---|---|---|
| Net operating margin last year | | 14.2% |
| Decrease in bought in margin | -0.1% | |
| Provisions and slippage | -0.1% | |
| Reduction in markdown | +1.6% | |
| Increase in achieved gross margin | | +1.4% |
| Reduction in store payroll | | +0.1% |
| Increase in store occupancy costs | | -2.1% |
| Increase in warehouse fixed costs | -0.6% | |
| Operational savings | +0.3% | |
| Increase in warehouse and distribution | | -0.3% |
| Increase in central overheads | | -0.2% |
| **Net operating margin this year** | | **13.1%** |

The improvement in achieved gross margin of +1.4% is primarily a result of reducing the markdown charge by 1.6%. We do not anticipate that there will be the same opportunity to save further markdown in the year ahead.

The bought in gross margin was broadly flat and was below our expectations in the second half. This was as a result of additional foreign currency requirements that were purchased at adverse rates.

Store wages improved slightly as a percentage of sales despite a 2.5% annual pay award. This was achieved as a result of better management of hours used in our stores; we expect man-hour savings to continue to offset wage increases for the current year.

Occupancy costs eroded margins by 2.1%. Like for like sales declined, whilst both rents and rates have continued to grow ahead of inflation. Like for like rents are up 4.6% and rates are up 6.5%. The driver for rental growth is reviews in out of town retail parks, where rents have risen significantly over the last five years. Rent reviews in High Street locations have been lower and continue to decline. In the year ahead we anticipate further rental increases on existing stores despite the current downturn, again this will be driven by out of town reviews. We are seeing a significant softening in the terms for new space.

Warehousing and distribution fixed costs rose by 0.6% as a result of opening new warehouses, which were completed on time and on budget. Operational benefits in both warehousing and distribution saved 0.3%, resulting in a net increase in costs of 0.3%. Central overheads increased due to reallocation of costs between Retail and Directory.

**NEXT DIRECTORY**

**Directory Sales**

Directory continues to grow despite the economic environment. We believe the resilience of the Directory is mainly as a result of continued growth in the use of the internet and the continued expansion of new product categories. The provision of credit on Next Directory accounts may also be providing an advantage in the current consumer environment.

Sales were at the top end of our expectations, up +2.1%. Growth was achieved through a 1.9% increase in the average number of active customers and an 8.4% increase in pages. The majority of the additional pages went to new and developing product areas.

The internet continues to be very important to the development of the Directory and now accounts for over 60% of our orders. We will continue to enhance our internet functionality in the coming season and we will re-launch the site in a wider format with improved search and display of products.

**Directory Profit**

Directory profit was down -4.1% on last year. The margin movement is detailed below; the figures show the change as a percentage of sales for each of our major heads of cost:

| | | |
|---|---|---|
| Net operating margin last year | | 20.6% |
| Decrease in bought in margin | -0.9% | |
| Increase in markdown | -0.3% | |
| Decrease in achieved gross margin | | -1.2% |
| Movement in bad debt | | 0.0% |
| Increase in service charge income | | +0.2% |
| Increase in warehouse and distribution | | -0.3% |
| Increase in marketing and book creation | | -0.4% |
| Decrease in other central overheads | | +0.4% |
| **Net operating margin this year** | | **19.3%** |

Achieved gross margin decreased by -1.2%. The bought in gross margin decreased by -0.9%, this was slightly worse than the position of Retail due to the growth in sales of lower margin non-Next branded categories. The markdown charge increased by 0.3% as a result of less Directory stock being transferred to the Retail Sale.

In contrast to the first half, we experienced a rise in customer credit defaults in the fourth quarter and increased our bad debt provisions accordingly. We currently believe that the bad debt charge in the year ahead will be broadly in line with the year just ended. However, we recognise that the risk here is on the downside and will continue to actively manage our credit offer.

Book creation costs rose as a result of increased pages and increased printing costs. We purchase print services in Euros and 0.2% of the margin loss relates to currency movements. Central overheads benefited from reallocation of costs between Retail and Directory.

**NEXT INTERNATIONAL**

Next International had a good year with sales and profits up 27%. Partner sales were up 7%, the balance of the increase in sales is mainly due to the acquisition of our Czech franchise.

Profits were boosted by savings in operational overheads, the non-recurrence of China start up costs and foreign exchange gains.

The outlook for our franchise business reflects the general state of the global economy, with many stores already moving backwards on the year. The anticipated fall in like for like sales will be partially offset by 14 additional stores. Overall we expect sales to be down, with profits around £7m.

**NEXT SOURCING (NSL)**

NSL is our overseas sourcing business with operations in several countries, the largest two being China (including Hong Kong) and Sri Lanka. NSL is a profit centre and during the year it supplied approximately 50% by value of Next Retail and Directory product purchases. There are over 1,000 employees engaged in all aspects of product design, procurement, quality and factory inspection. There are also over 2,000 employed in the two factories which we own in Sri Lanka.

Total sales decreased to £601m and profits were down -2.6% to £32m. The first half year was lower as a consequence of the timing of Chinese New Year and tighter control over purchases by Next Retail and Directory. The second half year profit was unchanged in local currency and increased on translation at weaker Sterling exchange rates. We expect local currency sales and profits for the coming year to be lower, however, the currency translation effects should again result in profits of around £32m.

**VENTURA**

Ventura had an extremely difficult year and continued to experience lower business volumes and margins in the second half. Sales for the year of £162m were down -20% and the impact on profits was significantly greater due to lower gross margins and fixed overheads. Some of its clients have reduced both their customer activity and volume of outsourced business. A key contract was renewed during the year at lower margins.

We do not believe the economic environment over the next year will allow us to maintain total business volumes and we have taken action to reduce costs where possible. Therefore, we do not expect any recovery in margins or profit for the year ahead and are currently forecasting for Ventura to broadly break even.

Ventura Network Distribution, our new fulfilment service supplying warehouse and distribution facilities to third parties, now has six clients. We are in advanced discussions with other potential clients and expect further profitable growth in this business.

**OTHER ACTIVITIES**

The Other Activities loss of £2m was in line with last year, although the constituent parts varied. The Property Management contribution reduced to £1m due to additional rent provisions on vacant properties. Our associated companies of Choice and Cotton Traders again delivered a combined profit share of £1m.

In September we acquired Lipsy, a young female fashion brand, and have made good progress in preparing it for future growth. Its primary routes to market were concessions and wholesale. Last year Lipsy opened its first retail store and commenced direct sales through the internet. In 2009 we are planning to open 9 Lipsy stores in major city centres and malls. We will also broaden the product offer and enhance its internet and home delivery capabilities. Lipsy made a loss before amortisation of £1m in the period and we expect it to achieve a small profit in the year ahead.

Group costs of £2m were down by over £5m. Bonus and long term incentive provisions were reduced as a consequence of group profit and share price performance, and there was also a reduction in the annual pension charge.

**INTEREST AND TAXATION**

The interest charge increased to £49m due to higher debt and interest rates at the start of the year, both of which reduced towards the end of the year. Interest was covered almost ten times by operating profit. We expect a significantly lower charge of approximately £32m for the year ahead. The tax rate was 29.5% and we expect a similar rate going forward.

**BALANCE SHEET AND CASH FLOW**

The balance sheet and cash flow remain robust. Cash flow from operations resulted in an inflow of £166m before share buybacks. The reduction in net debt after buybacks was £111m.

Net debt at the year end was £629m, primarily £550m of long term bonds maturing in 2013 and 2016. In addition, we have £445m of medium term bank facilities; £150m is committed until November 2010 and £295m, which was renewed in June 2008, is committed until 2013.

We anticipate cash flow will again be strongly positive for the coming year, with debt peaking at less than £750m after paying the final dividend in July. It is possible that by January 2010 total debt will be less than the £550m of long term bonds and that the £445m of committed bank facilities will be undrawn. Accordingly we do not envisage any refinancing requirements in the year ahead.

Capital expenditure amounted to £121m with reduced spending on our major categories of new retail space, existing store refits and warehousing. This trend will continue through 2009 and we are budgeting for total expenditure of £80m. Depreciation will remain in the region of £120m. We do not expect any significant increase in the combined working capital requirement for stock, debtors and creditors.

**SHARE BUYBACKS**

At the start of the year we were committed to purchase 1.9% of our shares for £54m. Since then we have not undertaken any further share buybacks and do not intend to do so whilst the outlook for long term debt and the consumer remains so uncertain.

**DIVIDEND**

The Directors are recommending a final dividend of 37p, bringing the total for the year to 55p, unchanged on last year. The dividend is covered 2.8 times by earnings per share of 156p.

## FUTURE TRADING STATEMENTS

We will make two trading statements in the next four months. The first will be an Interim Management Statement covering the first quarter and will be made on 6 May. The second will cover the first half and will be made at the end of July. We will announce our half year results in mid-September as usual.

## OUTLOOK FOR 2009/10

2009 presents a double challenge. Weakness in the general economy means we must plan for a fall in like for like sales for the full year. In addition, the weakness of Sterling will put strong upward pressure on cost prices. We are conscious the following paragraphs could make for alarmist headlines, so it is worth stressing that, despite the challenges, we still plan to deliver healthy net margins of more than 10%, generate over £100m of net cash and achieve profits in line with current market consensus.

### Outlook for the Economy

The outlook for the consumer economy remains challenging and, as we have said before, the first half will be particularly tough. National earnings will be hit by increasing unemployment. For those in employment, we anticipate there will be less opportunity for overtime and bonus payments. In addition, further falls in property prices are likely to undermine confidence.

However, those in employment are likely to benefit from a reduction in financial pressure. As we progress through the year, anticipated falls in mortgage interest costs, fuel, energy and possibly food mean many will be significantly better off. On balance we believe that negative sentiment will override these positive effects for some time and many consumers will choose to increase savings rather than expenditure.

Looking out longer term into 2010 it is worth cautioning about the risk of higher inflation. Any prolonged weakness in the value of Sterling, combined with higher VAT rates and rapidly rising business rates, could result in a return of inflationary pressure feeding through to the economy.

### Outlook for Sales

We anticipate negative like for like sales for the full year with the first half being particularly difficult. We are budgeting for first half Retail like for like sales to be down between -6% and -9%. We are less cautious for Directory, which we expect will benefit from increased use of the internet, new product ranges and availability to customers of its credit offer. We are budgeting for Directory sales to be down between 0% and -2% in the first half.

### The Impact of Currency

The precipitous fall in the value of Sterling presents many retailers with an enormous challenge. Whilst much of our currency requirements for the first half have been hedged, in the second half we have bought the Dollar at an average price of around $1.50 to the Pound versus $1.98 last year. The rate against the Euro has also dropped significantly though this is to some extent offset by our Euro revenues.

We believe that some of the currency impact will be absorbed through price negotiations and re-sourcing. However, we expect that both selling prices and gross margins will be adversely affected.

### Outlook for Retail and Directory Net Margins

We are budgeting for Retail net operating margins to fall by around 3% to circa 10%. There are two main drivers for the drop in margin. We anticipate that bought in margin will reduce by up to 1.6% as a result of the currency pressures detailed above. In addition, occupancy costs are likely to rise as a percentage of sales as like for likes decline further.

We are budgeting for Directory net operating margins to remain broadly flat at around 19%. We anticipate that falling gross margins will be offset by savings in warehousing and distribution. There is increased risk of bad debt in this environment and we will remain vigilant in our management of customer credit.

## SUMMARY

In facing another challenging year, there are four points I would like to re-emphasise:

- We expect the consumer environment to remain difficult for the full year.
- Next is well placed to weather the storm with high net margins, a strong balance sheet, committed long term funding and positive cash flows.
- We expect group net margins to remain above 10% and our internal profit expectations to be in line with current market consensus.
- We do not intend to compromise the integrity of our pricing, nor the quality and design of our ranges in response to economic difficulties.

Whilst we remain cautious in our outlook for the year ahead, we believe that perhaps the economic gloom has been overdone. At some point, the economy will begin to recover and we must focus on ensuring Next's stores, personnel and brand emerge in good shape. To that end, we will set realistic budgets, control our stock and closely manage our cost base, whilst at the same time continuing to invest in our most important asset, the Next Brand.

**Simon Wolfson**
**Chief Executive**
**26 March 2009**

**UNAUDITED CONSOLIDATED INCOME STATEMENT**

| | | **Year to January 2009 £m** | Year to January 2008 £m |
|---|---|---|---|
| **Revenue** | | **3,271.5** | 3,329.1 |
| **Trading profit** | | **477.4** | 535.9 |
| Share of results of associates | | **0.9** | 1.2 |
| **Operating profit** | | **478.3** | 537.1 |
| Finance income | | **1.3** | 4.3 |
| Finance costs | | **(50.8)** | (43.3) |
| **Profit before taxation** | | **428.8** | 498.1 |
| Taxation | | **(126.5)** | (144.2) |
| **Profit for the year** | | **302.3** | 353.9 |
| **Profit for the year attributable to:** | | | |
| Equity holders of the parent company | | **302.4** | 354.1 |
| Minority interest | | **(0.1)** | (0.2) |
| | | **302.3** | 353.9 |
| **Basic earnings per share** | **p** | **156.0** | 168.7 |
| **Diluted earnings per share** | **p** | **155.7** | 166.6 |
| **Dividend per share** | **p** | **55.0** | 55.0 |

**UNAUDITED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

| | **Year to January 2009 £m** | Year to January 2008 £m |
|---|---|---|

| | | |
|---|---|---|
| *Income and expenses recognised directly in equity* | | |
| Exchange differences on translation of foreign operations | **7.0** | 0.6 |
| Gains on cash flow hedges | **114.9** | 3.4 |
| Actuarial (losses)/gains on defined benefit pension schemes | **(36.2)** | 1.7 |
| Tax on items recognised directly in equity | **(2.0)** | (11.5) |
| | **83.7** | (5.8) |
| *Transfers* | | |
| Transferred to income statement on cash flow hedges | **(30.7)** | 28.2 |
| Transferred to carrying amount of hedged items on cash flow hedges | **(25.9)** | (0.4) |
| Net income recognised directly in equity | **27.1** | 22.0 |
| **Profit for the year** | **302.3** | 353.9 |
| **Total recognised income and expense for the year** | **329.4** | 375.9 |
| **Attributable to:** | | |
| Equity holders of the parent company | **329.6** | 376.1 |
| Minority interest | **(0.2)** | (0.2) |
| | **329.4** | 375.9 |

## UNAUDITED CONSOLIDATED BALANCE SHEET

| | **January 2009 £m** | January 2008 £m |
|---|---|---|
| **ASSETS AND LIABILITIES** | | |
| **Non-current assets** | | |
| Property, plant & equipment | **612.8** | 610.6 |
| Intangible assets | **55.4** | 36.2 |
| Interests in associates | **3.5** | 2.9 |
| Other investments | **1.0** | 1.0 |
| Other financial assets | **14.1** | 0.5 |
| | **686.8** | 651.2 |
| **Current assets** | | |
| Inventories | **318.7** | 319.1 |
| Trade and other receivables | **639.6** | 591.5 |
| Other financial assets | **84.4** | 12.6 |
| Cash and short term deposits | **47.8** | 56.0 |
| | **1,090.5** | 979.2 |
| **Total assets** | **1,777.3** | 1,630.4 |
| **Current liabilities** | | |
| Bank overdrafts | **(46.3)** | (37.7) |
| Unsecured bank loans | **(75.0)** | (205.0) |
| Trade and other payables | **(485.1)** | (466.6) |
| Other financial liabilities | **(15.8)** | (55.0) |
| Current tax liabilities | **(85.9)** | (92.4) |
| | **(708.1)** | (856.7) |
| **Non-current liabilities** | | |
| Corporate bonds | **(567.8)** | (539.7) |
| Net retirement benefit obligation | **(69.1)** | (45.8) |

| | | |
|---|---|---|
| Provisions | **(13.1)** | (9.4) |
| Deferred tax liabilities | **(34.2)** | (22.6) |
| Other financial liabilities | **(2.4)** | (12.3) |
| Other liabilities | **(226.0)** | (223.0) |
| | **(912.6)** | (852.8) |
| **Total liabilities** | **(1,620.7)** | (1,709.5) |
| **Net assets/(liabilities)** | **156.6** | (79.1) |
| **EQUITY** | | |
| Share capital | **19.7** | 20.1 |
| Share premium account | **0.7** | 0.7 |
| Capital redemption reserve | **10.2** | 9.8 |
| ESOT reserve | **(48.7)** | (54.8) |
| Fair value reserve | **69.6** | 11.3 |
| Foreign currency translation reserve | **9.7** | 2.6 |
| Other reserves | **(1,443.8)** | (1,443.8) |
| Retained earnings | **1,539.3** | 1,374.9 |
| **Shareholders' equity** | **156.7** | (79.2) |
| Minority interest | **(0.1)** | 0.1 |
| **Total equity** | **156.6** | (79.1) |

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

| | **Year to January 2009 £m** | Year to January 2008 £m |
|---|---|---|
| *Cash flows from operating activities* | | |
| Operating profit | **478.3** | 537.1 |
| Depreciation and amortisation | **116.8** | 108.4 |
| Loss on disposal of property, plant and equipment | **6.2** | 5.0 |
| Share option charge | **8.9** | 8.8 |
| Share of undistributed profit of associates | **(0.6)** | (0.7) |
| Exchange movement | **3.9** | (2.4) |
| Decrease/(increase) in inventories | **1.0** | (37.3) |
| Increase in trade and other receivables | **(44.2)** | (13.9) |
| Increase in trade and other payables | **17.3** | 31.8 |
| Pension contributions less income statement charge | **(12.9)** | 0.5 |
| Cash generated from operations | **574.7** | 637.3 |
| Corporation taxes paid | **(125.9)** | (119.3) |
| **Net cash from operating activities** | **448.8** | 518.0 |
| *Cash flows from investing activities* | | |
| Proceeds from sale of property, plant and equipment | **0.3** | 0.4 |
| Acquisition of property, plant and equipment | **(120.6)** | (179.3) |
| Outflow on acquisition of subsidiaries | **(14.1)** | - |
| **Net cash from investing activities** | **(134.4)** | (178.9) |
| *Cash flows from financing activities* | | |
| Repurchase of own shares | **(55.2)** | (512.8) |

| | | |
|---|---|---|
| Proceeds from disposal of shares by ESOT | **3.9** | 23.8 |
| (Repayment)/proceeds of unsecured bank loans | **(130.0)** | 204.9 |
| Interest paid | **(50.1)** | (40.6) |
| Interest received | **1.4** | 4.4 |
| Investments by minority interest | **-** | 0.3 |
| Payment of finance lease liabilities | **(0.5)** | (0.6) |
| Dividends paid | **(106.5)** | (109.4) |
| **Net cash from financing activities** | **(337.0)** | (430.0) |
| Net decrease in cash and cash equivalents | **(22.6)** | (90.9) |
| Opening cash and cash equivalents | **18.3** | 109.2 |
| Effect of exchange rate fluctuations on cash held | **5.8** | - |
| **Closing cash and cash equivalents (Note 4)** | **1.5** | 18.3 |

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

Other than as described below, the condensed consolidated financial statements for the year ended 24 January 2009 have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union and the accounting policies set out in the Next plc Annual Report and Accounts for the year ended 26 January 2008.

The condensed consolidated financial statements are unaudited and do not represent statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 26 January 2008 have been delivered to the Registrar of Companies and included an audit report which was unqualified and which did not contain any statement under Section 237 of the Companies Act 1985.

*Change in accounting policy*

In the current financial year, the Group has elected to early adopt the requirements of IFRS 8 *Operating Segments*, which would otherwise become effective for the financial year ending January 2010. IFRS 8 concerns the presentation and disclosure of segment information in the Group's financial statements and consequently has not affected the measurement of the Group's profit, assets or liabilities.

IFRS 8 requires segment information to be presented on the same basis as that used for internal reporting purposes. This has resulted in one additional segment, Property Management, being presented.

### 2. Earnings per share

The calculation of basic earnings per share is based on £302.4m (2008: £354.1m) being the profit for the year attributable to equity holders of the parent company and 193.8m ordinary shares of 10p each (2008: 209.9m), being the weighted average number of shares in issue less the weighted average number of shares held by the ESOT during the year.

Diluted earnings per share is based on £302.4m (2008: £354.1m) being the profit for the year attributable to equity holders of the parent company and 194.0m ordinary shares of 10p each (2008: 212.5m), being the weighted average number of shares used for the calculation of basic earnings per share above increased by the dilutive effect of potential ordinary shares from employee share option schemes of 0.2m shares (2008: 2.6m shares).

### 3. Reconciliation of equity

| | **Year to January 2009 £m** | Year to January 2008 £m |
|---|---|---|
| Total recognised income and expense | **329.4** | 375.9 |
| Issue of shares in subsidiary | **-** | 0.3 |
| Shares purchased for cancellation | **-** | (568.0) |
| Shares issued by ESOT | **3.9** | 23.8 |
| Share option charge | **8.9** | 8.8 |
| Equity dividends paid | **(106.5)** | (109.2) |
| Total movement during the period | **235.7** | (268.4) |
| Opening total equity | **(79.1)** | 189.3 |
| **Closing total equity** | **156.6** | (79.1) |

### 4. Analysis of net debt

| | January 2008 £m | Cash flow £m | Other non-cash changes £m | **January 2009 £m** |
|---|---|---|---|---|
| Cash and short term deposits | 56.0 | | | **47.8** |
| Overdrafts | (37.7) | | | **(46.3)** |
| Cash and cash equivalents | 18.3 | (22.6) | 5.8 | **1.5** |
| Unsecured bank loans | (205.0) | 130.0 | - | **(75.0)** |
| Corporate bonds | (539.7) | - | (28.1) | **(567.8)** |
| Fair value hedges of corporate bonds | (12.3) | - | 26.4 | **14.1** |
| Finance leases | (1.8) | 0.5 | (0.1) | **(1.4)** |
| **Total net debt** | (740.5) | 107.9 | 4.0 | **(628.6)** |

It is intended that the recommended final dividend will be paid on 1 July 2009 to shareholders registered on 29 May 2009. The Annual General Meeting will be held at the Belmont Hotel, De Montfort Street, Leicester LE1 7GR on Tuesday 19 May 2009. The Annual Report and Accounts will be sent to shareholders by 16 April 2009 and copies will be available from the Company's registered office: Desford Road, Enderby, Leicester, LE19 4AT and on the Company's website at www.nextplc.co.uk.

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