

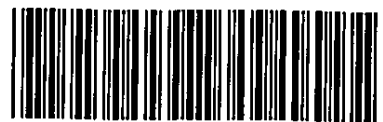
# **NEXT Distribution Limited**

## **Report and Financial Statements**

28 January 2012

Registered No 3045421

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## Report and Financial Statements

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Registered in England & Wales

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Enderby  
Leicester  
LE19 4AT

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## Directors' Report and Business Review

The Directors present their annual report and audited accounts for the year ended 28 January 2012

### Results and dividends

The profit for the year, after taxation, amounted to £38,772,000 (2011 £33,720,000) No interim equity dividend was paid during the year (2011 £50,000,000) The directors do not propose payment of a final dividend

### Principal activities and review of the business

The principal activity of the Company during the year was the warehousing and distribution of clothing and home furnishing products on behalf of the NEXT group The Company also offers warehousing and distribution services to third parties outside of the NEXT group

	2012 £000	2011 £000	
Revenue	355,301	321,303	+10.6%
Operating profit	50,466	47,015	+7.3%
Average number of employees	4,786	4,314	

The directors consider the trading results to have been satisfactory

### Risks & Uncertainties

The Board has a policy of continuous identification and review of key business risks and oversees the development of processes to ensure that these risks are managed appropriately Executive directors and operational management are delegated with the task of implementing these processes and reporting to the Board on their outcomes The key risks identified by the Board are summarised below

#### Warehousing & distribution

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

#### Management team

The success of the Company relies on the continued service of its senior management and technical personnel and on its ability to continue to attract, motivate and retain highly qualified employees The sector is very competitive and the Company's staff are frequently targeted by other companies for recruitment The NEXT Remuneration Committee identifies senior personnel, reviews their remuneration at least annually and formulates packages that are structured to retain and motivate these employees In addition, the Board considers the development of senior managers to ensure that there are adequate career development opportunities for key personnel and an orderly succession and promotion to all important management positions within the Group's businesses

#### IT systems & business continuity

The Company is dependent upon the continued availability and integrity of its computer systems The business must record and process a substantial volume of data and conduct inventory management accurately and quickly The Company expects that its systems will require continuous enhancement and ongoing investment to prevent obsolescence and maintain responsiveness to business needs Back up facilities and business continuity plans are in place and are tested regularly to ensure that business interruptions are minimised and data is protected from corruption or unauthorised access or use

## Directors' Report and Business Review

### Employees

People are key to achieving the Company's business objectives. The Company has established policies for recruitment, training and development of personnel and is committed to achieving excellence in the areas of health, safety, welfare and protection of employees and their working environment.

#### *Equal opportunities*

The Company is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination. Full consideration is given to application for employment from disabled persons, having regard to their particular aptitudes and abilities. The Company has continued the employment wherever possible of any person who becomes disabled during their employment. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

#### *Training and development*

The Company aims to realise the potential of its employees by supporting their career progression and promotion wherever possible. It makes significant investment in the training and development of staff and in training and education programmes which contribute to the internal promotion prospects of employees.

#### *Employee communication*

The Company has a policy of providing employees with financial and other information about the business and ensures that the suggestions and views of employees are taken into account. The NEXT Group has an employee forum made up of a network of elected representatives from throughout its businesses who attend meetings at least twice a year with directors and senior managers. This forum enables and encourages open discussion on key business issues, policies and the working environment.

### Social & Environmental Matters

#### *Health and Safety*

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

The Company's objective is to manage all aspects of its business in a safe manner and take practical measures to ensure that its activities and products do not harm customers, employees, contractors, sites or equipment. Procedures are in place to enable effective two way communication and consultation about health, safety and welfare issues in order to achieve a high level of safety awareness.

#### *Environment*

The Company recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future. Key areas of focus continue to be

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

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

## Directors' Report and Business Review

### *Suppliers*

The Company'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 Company's payment terms. Payment is made in accordance with contractual and other legal obligations.

At 28 January 2012, the Company had an average nil days (2011 nil days) purchases outstanding in trade creditors.

### **Directors**

The directors who served the Company during the period were as follows:

D W Keens  
S A Wolfson  
A J Varley

No director had any interest in the share capital of the Company or of any subsidiary company of NEXT plc. The directors are also directors of NEXT plc, and their own and their families' interests in the ordinary shares of NEXT plc are shown in the accounts of that company.

### **Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out above. The Company participates in the NEXT group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary companies.

The directors, having assessed the responses of the directors of the Company's parent, NEXT plc, to their enquiries, have no reason to believe that a material uncertainty exists that may cast doubt about the ability of the NEXT group to continue as a going concern or its ability to continue with the current banking arrangements. On the basis of these enquiries, their assessment of the Company's financial position, and the continued support of the Company's parent, Next plc, the directors have a reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

### **Auditors**

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

### **Disclosure of information to auditors**

In accordance with the provisions of section 418 of the Companies Act 2006, each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



AJR McKinlay  
Secretary

13 July 2012

## Directors' Responsibility Statement

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union

Under company law, the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies in accordance with *IAS8 Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and performance,
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue its business

The directors confirm that the financial statements comply with the above requirements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## **Independent Auditors' Report**

### **to the members of NEXT Distribution Limited**

We have audited the financial statements of NEXT Distribution Limited for the year ended 28 January 2012 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and the related Notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 28 January 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report and Business Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

*Ernst & Young LLP*

Christopher Voogd (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham

17 JULY 2012

## Income Statement

for the year ended 28 January 2012

	Notes	2012 £000	2011 £000
<b>Revenue</b>	2	355,301	321,303
Cost of sales		(303,788)	(273,384)
<b>Gross profit</b>		51,513	47,919
Net operating expenses		(1,047)	(904)
<b>Operating profit</b>	3	50,466	47,015
Finance costs	6	(27)	(37)
<b>Profit before taxation</b>		50,439	46,978
Taxation	7	(11,667)	(13,258)
<b>Profit for the year</b>		38,772	33,720

## Statement of Comprehensive Income

for the year ended 28 January 2012

There was no other comprehensive income for the year other than the profit of £38,772,000 (2011 £33,720,000)



## Balance Sheet

at 28 January 2012

	Notes	2012 £000	2011 £000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant & equipment	9	154,206	148,351
<b>Current assets</b>			
Trade and other receivables	10	78,150	53,824
Cash and short term deposits		20,089	8,469
		<u>98,239</u>	<u>62,293</u>
<b>Total assets</b>		<u>252,445</u>	<u>210,644</u>
<b>Current liabilities</b>			
Trade and other payables	11	(140,703)	(136,063)
Current tax liability		(12,012)	(13,154)
		<u>(152,715)</u>	<u>(149,217)</u>
<b>Non-current liabilities</b>			
Provisions	14	-	-
Finance lease liabilities		(396)	(520)
Deferred tax liability	7	(18,268)	(20,002)
		<u>(18,664)</u>	<u>(20,522)</u>
<b>Total liabilities</b>		<u>(171,379)</u>	<u>(169,739)</u>
<b>Net assets</b>		<u>81,066</u>	<u>40,905</u>
<b>EQUITY</b>			
Share capital	17	25,000	25,000
Retained earnings		56,066	15,905
<b>Total equity</b>		<u>81,066</u>	<u>40,905</u>



**D W Keens**  
Director

13 July 2012

## Statement of Changes in Equity

for the year ended 28 January 2012

	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total £000</i>
At January 2010	25,000	31,844	56,844
Total comprehensive income for the year	-	33,720	33,720
Tax recognised directly in equity	-	341	341
Approved equity dividends	-	(50,000)	(50,000)
At January 2011	25,000	15,905	40,905
Total comprehensive income for the year	-	38,772	38,772
Tax recognised directly in equity	-	1,389	1,389
At January 2012	25,000	56,066	81,066

## Cash Flow Statement

for the year ended 28 January 2012

	Notes	2012 £000	2011 £000
<i>Cash flows from operating activities</i>			
Operating profit		50,466	47,015
Depreciation		18,982	18,202
Loss on disposal of property, plant & equipment		68	-
Increase in trade and other receivables		(24,326)	(35,472)
Increase in trade and other payables		4,675	57,222
Decrease in provisions		-	(89)
Cash generated from operations		49,865	86,878
Corporation taxes paid		(13,154)	(12,009)
<b>Net cash from operating activities</b>		<b>36,711</b>	<b>74,869</b>
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant & equipment		71	-
Acquisition of property, plant & equipment		(24,976)	(19,895)
<b>Net cash from investing activities</b>		<b>(24,905)</b>	<b>(19,895)</b>
<i>Cash flows from financing activities</i>			
Equity dividends paid		-	(50,000)
Interest paid		(27)	(37)
Payment of finance lease liabilities		(159)	(352)
<b>Net cash from financing activities</b>		<b>(186)</b>	<b>(50,389)</b>
Net movement in cash and cash equivalents		11,620	4,585
Opening cash and cash equivalents		8,469	3,884
<b>Closing cash and cash equivalents</b>	20	<b>20,089</b>	<b>8,469</b>

## Notes to the Financial Statements

at 28 January 2012

### 1. Accounting policies

#### **Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union and in accordance with the Companies Act 2006

The financial statements have been prepared on the historical cost basis except for share based payments which are measured at fair value. The principal accounting policies adopted are set out below

The financial statements are presented in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements

#### **Revenue**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided to customers outside of the Company, stated net of value added and other sales taxes

Income from rendering of services is recognised when the services have been performed

#### **Property, plant & equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and reviewed annually for impairment

Depreciation is provided to write down the cost of property, plant and equipment to their estimated residual values, based on current prices at the balance sheet date, over their remaining useful lives by equal annual instalments. Useful lives are also reviewed annually

The depreciation period generally applicable to plant and machinery ranges from two to fifteen years

#### **Impairment**

The carrying values of non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows which are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is estimated

The recoverable amount of a non-financial asset is the higher of its fair value less costs to sell, and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount

#### **Financial assets**

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

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

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

## Notes to the Financial Statements

at 28 January 2012

### 1. Accounting policies (continued)

#### *Trade and other receivables*

Trade receivables are stated at original invoice amount. Where there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. The carrying amount of the receivable is reduced through use of an allowance account. Amounts charged to the allowance account are written off when there is no expectation of further recovery.

#### *Share based payments*

The fair value of employee share options granted is calculated using the Black-Scholes model. The resulting cost is charged in the income statement over the vesting period of the option, and is adjusted for the expected and actual number of options vesting.

For cash-settled share based payments, the fair value of the liability is determined at each balance sheet date and the charge recognised through the income statement over the period in which the related services are received by the Company.

#### *Taxation*

Current tax liabilities are measured at the amount expected to be paid, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the rates of taxation that are expected to apply when the asset or liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date and is not discounted.

Taxation is charged or credited directly to equity if it relates to items that are credited or charged to equity, otherwise it is recognised in the income statement.

#### *Cash and cash equivalents*

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short term deposits, less bank overdrafts which are repayable on demand. Cash and short term deposits comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

#### *Bank loans and overdrafts*

Bank loans and overdrafts are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

## Notes to the Financial Statements

at 28 January 2012

### 1. Accounting policies (continued)

#### ***Employee benefits***

Employees of the Company are eligible for membership of pension plans operated by NEXT plc ("the Group"). The Group operates a pension plan which consists of defined benefit and defined contribution sections.

The Group reports its pension costs, assets and liabilities in accordance with IAS 19 *Employee Benefits* and full details are given in the consolidated financial statements of the Group. There is no consistent and reliable basis for allocating the plan assets, liabilities and cost between the participating entities since it is not possible to determine from the terms of the plan the extent to which the surplus or deficit in the plan will affect the future contributions of the Company. Accordingly, as an unlisted wholly-owned subsidiary of NEXT plc, the Company accounts for its participation in the plan as if it were a defined contribution plan, with pension costs charged to the income statement as incurred.

#### ***Provisions***

A provision is recognised where the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted where the impact is material.

#### ***Leasing commitments***

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases.

Assets used by the Company which have been funded through finance leases are capitalised in property, plant and equipment 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 income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to income on a straight line basis over the period of the lease. Premiums payable, rent free periods and capital contributions receivable on entering an operating lease are released to income on a straight line basis over the lease term.

#### ***Changes in accounting standards***

Various new accounting standards and amendments have been issued during the year, none of which have had or are expected to have any significant impact on the Company's reported profits or equity.

## Notes to the Financial Statements

at 28 January 2012

### 2. Revenue

	2012 £000	2011 £000
Rendering of services	<u>355,301</u>	<u>321,303</u>

### 3. Operating profit

This is stated after charging/(crediting)

	2012 £000	2011 £000
Depreciation on assets		
Owned	18,819	17,848
Leased	163	354
Loss on disposal of property, plant & equipment	68	-
Operating lease rentals		
Minimum lease payments	10,083	9,765
Auditors' remuneration		
Audit services	8	8
Trade receivables		
Impairment charge	154	43
Amounts recovered	(101)	(43)

### 4. Staff costs

	2012 £000	2011 £000
Wages and salaries	98,182	85,799
Social security costs	8,461	7,528
Other pension costs	2,537	6,517
	<u>109,180</u>	<u>99,844</u>
Share based payments expense		
Equity settled	1,047	894
	<u>110,227</u>	<u>100,738</u>

The monthly average number of employees during the period was as follows

	2012 No	2011 No
Distribution staff	<u>4,786</u>	<u>4,314</u>

If the number of hours worked were converted on the basis of a full working week, the equivalent average number of full-time employees would have been 4,580 (2011 4,055)

## Notes to the Financial Statements

at 28 January 2012

### 5. Directors' emoluments

None of the directors received any remuneration from the Company for the year ended 28 January 2012 (2011: £nil). All of the directors were also directors of the ultimate parent company, NEXT plc, and their emoluments for services to the group are disclosed in the report and accounts of that company. The directors believe that it is not practicable to apportion their remuneration between qualifying services for this company and other group companies in which they hold office.

### 6. Finance costs

	2012 £000	2011 £000
Interest on obligations under finance leases	<u>27</u>	<u>37</u>

### 7. Taxation

	2012 £000	2011 £000
<i>Current tax</i>		
UK corporation tax on profits of the year	13,481	13,331
Total current tax	<u>13,481</u>	<u>13,331</u>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(1,814)	(751)
Adjustments in respect of prior years	-	678
Tax expense reported in the income statement	<u>11,667</u>	<u>13,258</u>

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

	2012 %	2011 %
UK corporation tax rate	26.3	28.0
(Non-taxable income)/expenses not deductible for tax purposes	(2.7)	0.4
Deferred tax rate adjustment	(3.0)	(1.6)
Utilisation of deferred tax asset on employee share options	2.5	-
Tax under-provided in previous years	-	1.4
Effective total tax rate on profit before taxation	<u>23.1</u>	<u>28.2</u>

In addition to the amounts charged to the income statement, tax movements recognised directly in equity were as follows:

	2012 £000	2011 £000
<i>Current tax</i>		
Share based payments	(1,469)	(177)
<i>Deferred tax</i>		
Share based payments	80	(164)
Tax credit in the statement of changes in equity	<u>(1,389)</u>	<u>(341)</u>



## Notes to the Financial Statements

at 28 January 2012

### 7. Taxation (continued)

#### *Deferred taxation*

	2012 £000	2011 £000
Accelerated capital allowances	19,552	21,246
Share based payments	(1,264)	(1,165)
Other temporary differences	(20)	(79)
	<u>18,268</u>	<u>20,002</u>

The movement in the year is as follows

	2012 £000	2011 £000
At January 2011	20,002	20,239
Charged/(credited) to the income statement		
Accelerated capital allowances	(1,694)	(529)
Share based payments	(179)	26
Other temporary differences	59	430
Recognised directly in equity	80	(164)
At January 2012	<u>18,268</u>	<u>20,002</u>

A reduction in the rate of corporation tax to 24% with effect from 1 April 2012 was substantively enacted on 26 March 2012. As this was after the balance sheet date, the impact on the Company's deferred tax balance has not been recognised, but is not expected to be significant.

### 8. Dividends

#### *Amounts recognised as distributions to equity holders in the period*

	2012 £000	2011 £000
Interim dividend for the year ended 28 January 2012 of £0.00 per share (2011: £2.00 per share)	<u>-</u>	<u>50,000</u>

## Notes to the Financial Statements

at 28 January 2012

### 9. Property, plant & equipment

	<i>Short leasehold property £000</i>	<i>Plant and machinery £000</i>	<i>Total £000</i>
<i>Cost</i>			
At January 2010	1,109	256,028	257,137
Additions	-	19,895	19,895
At January 2011	1,109	275,923	277,032
Additions	-	24,912	24,912
Group transfers in	-	118	118
Group transfers out	-	(75)	(75)
Disposals	-	(127)	(127)
At January 2012	1,109	300,751	301,860
<i>Depreciation</i>			
At January 2010	29	110,450	110,479
Provided during the year	35	18,167	18,202
At January 2011	64	128,617	128,681
Provided during the year	22	18,960	18,982
Group transfers in	-	54	54
Group transfers out	-	(4)	(4)
Disposals	-	(59)	(59)
At January 2012	86	147,568	147,654
<i>Carrying amount</i>			
At January 2012	1,023	153,183	154,206
At January 2011	1,045	147,306	148,351
At January 2010	1,080	145,578	146,658

The carrying amount of plant and machinery above includes an amount of £396,000 (2011 £559,000) in respect of assets held under finance leases

At 28 January 2012 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £756,000 (2011 £3,083,000)

## Notes to the Financial Statements

at 28 January 2012

### 10. Trade and other receivables

	2012 £000	2011 £000
Trade receivables	2,227	2,951
Less allowance for doubtful debts	(2)	-
	<u>2,225</u>	<u>2,951</u>
Amounts owed by group undertakings	72,790	46,443
Amounts owed by associates	420	829
Prepayments and accrued income	2,715	3,601
	<u>78,150</u>	<u>53,824</u>

Amounts owed by group undertakings are repayable on demand

The credit quality of trade receivables that are neither past due nor impaired is considered good as there has been no recent history of default. Expected irrecoverable amounts are provided for based on past default experience.

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

Ageing of trade receivables

	2012 £000	2011 £000
Current	2,210	2,512
0 – 30 days past due	14	439
30 – 60 days past due	3	-
60 – 90 days past due	-	-
90 – 120 days past due	-	-
More than 120 days past due	-	-
	<u>2,227</u>	<u>2,951</u>

### 11. Trade and other payables

	2012 £000	2011 £000
Obligations under finance leases	124	159
Amounts owed to parent undertakings	112,316	108,356
Other taxes and social security	592	513
Other creditors and accruals	27,671	27,035
	<u>140,703</u>	<u>136,063</u>

Trade payables are not interest-bearing and are generally settled on 30 day terms. Amounts owed to parent undertakings and other creditors and accruals are not interest-bearing.

## Notes to the Financial Statements

at 28 January 2012

### 12. Obligations under finance leases

	2012 £000	2011 £000
Future minimum payments due		
Within one year	144	186
In two to five years	422	554
Over five years	-	12
	<u>566</u>	<u>752</u>
Less finance charges allocated to future periods	(46)	(73)
Present value of minimum lease payments	<u>520</u>	<u>679</u>

The present value of minimum lease payments is analysed as follows

	2012 £000	2011 £000
Within one year	124	159
In two to five years	396	508
Over five years	-	12
	<u>520</u>	<u>679</u>

The Company uses finance leases to acquire certain plant and machinery. Obligations under finance leases carry interest at an average effective rate of 4.5% (2011: 4.3%).

### 13. Retirement benefit plans

Employees of the Company are eligible in the UK for membership of the NEXT Group Pension Plan, 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 and was closed to new members in 2000. For all current plan members, pensions earnings are comprised of salaries, overtime and, prior to 1 October 2006, annual performance bonuses. From 1 October 2006, sales and profit related bonuses ceased to be part of pensionable earnings.

The Group reports its pension costs, assets and liabilities in accordance with IAS 19 *Employee Benefits* and full details are given in the consolidated financial statements of the Group. There is no consistent and reliable basis for allocating the plan assets, liabilities and cost between the participating entities since it is not possible to determine from the terms of the plan the extent to which the surplus or deficit in the plan will affect the future contributions of the Company. Accordingly, as an unlisted wholly-owned subsidiary of NEXT plc, the Company accounts for its participation in the plan as if it were a defined contribution plan.

The IAS 19 valuation of the defined benefit section was undertaken by an independent qualified actuary as at 28 January 2012 using the projected unit credit method. The net surplus in the plan on an IAS 19 basis at that date was £35.1m (2011: net surplus £55.7m).

In 2010, as part of the Group's risk management strategy for the liabilities arising under the Plan, certain pensioner liabilities were subject to a buy-in arrangement. Under the terms of the arrangement, the Plan paid £124m to an insurance company and receives annuity payments equal to the monthly pensions then in payment. This eliminates the Plan's exposure to the interest, inflation and longevity risks associated with these pensioner members.

After the balance sheet date, on 27 June 2012, a further buy-in arrangement was put in place for pensions in payment at that date at a cost of approximately £24m. To facilitate this, the Group made a special contribution of £11m to the Plan.

## Notes to the Financial Statements

at 28 January 2012

### 13. Retirement benefit plans (continued)

During the current year, no special contributions were made by the Company in addition to the regular contributions to the plan (2011 £4,046,000). The most recent full actuarial valuation of the defined benefit section's financial position was undertaken as at 31 March 2010. Adjusting these results for the subsequent buy-in transaction (described above) resulted in a fully funded position on an actuarial basis. The Group and the Trustees of the Plan have agreed that no further special contributions are required.

The defined contribution section is for all members who joined after September 2000 and benefits are based on each individual member's personal account which is invested in an independently administered fund. The plan has equal pension rights with respect to members of either sex and complies with the Employment Equality Regulations (2006). The assets of the plan are held in a separate trustee administered fund. The Group also provides further unfunded retirement benefits to plan members who would otherwise be restricted by the lifetime allowance.

### 14. Provisions

	2012 £000	2011 £000
Provision brought forward	-	89
Utilised during the period	-	(89)
Provision carried forward	-	-

In the prior year, the provision related to a vacant warehouse property which was no longer in use. The lease expired in March 2010.

### 15. Commitments under operating leases

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

	2012 £000	2011 £000
Within one year	4,921	5,545
After one year but not more than five years	8,531	8,303
More than five years	1,554	1,013
	<u>15,006</u>	<u>14,861</u>

The Company has entered into operating leases in respect of vehicles, equipment and warehouses. These non-cancellable leases have remaining terms of between 1 month and 9 years.

### 16. Contingent liability

The Company has given a guarantee to Barclays Bank plc in respect of a bank set-off arrangement with its parent undertaking NEXT plc, its fellow subsidiary undertakings and associates. The guarantee dated 9 September 2003 is limited to the credit balance held on the Company's bank account.



## Notes to the Financial Statements

at 28 January 2012

### 18. Equity settled share based payments (continued)

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was 2,407p (2011 2,176p). Options outstanding at 28 January 2012 are exercisable at prices ranging between 889p and 2,189p (2011 889p to 2,189p), and have a weighted average remaining contractual life of 6.5 years (2011 6.3 years), further analysed in the table below

	2012		2011	
	No. of options outstanding	Weighted average remaining contractual life (years)	No. of options outstanding	Weighted average remaining contractual life (years)
Exercise price range				
889p – 1131p	64,945	3.4	391,179	5.2
1302p – 1399p	190,680	7.2	209,869	8.2
1412p – 1782p	95,217	2.7	145,111	3.8
2070p	159,762	9.2	-	-
2084p – 2189p	231,265	6.6	239,944	8.0
Outstanding at end of period	<u>741,869</u>	6.5	<u>986,103</u>	6.3

The following table lists the inputs to the model used for options granted in the years ended 28 January 2012 and 29 January 2011 based on information at the date of grant

	2012	2011
<i>Management share options</i>		
Weighted average share price at date of grant	£20.70	£21.83
Weighted average exercise price	£20.70	£21.83
Volatility	41.4%	40.9%
Expected life	4.0 years	4.0 years
Risk free rate	2.37%	2.35%
Dividend yield	3.48%	2.57%
Weighted average fair value per option	£5.51	£6.20
<i>Sharesave plans</i>		
Weighted average share price at date of grant	£26.05	£22.27
Weighted average exercise price	£20.84	£17.82
Volatility	34.4%	43.4%
Expected life	3.3 years	3.5 years
Risk free rate	0.96%	1.11%
Dividend yield	2.99%	2.96%
Weighted average fair value per option	£7.23	£7.36

Expected volatility was determined by calculating the historical volatility of NEXT plc's share price over a period equivalent to the expected life of the option. The expected life applied in the model is based on historical analyses of exercise patterns, taking into account any early exercises.

## Notes to the Financial Statements

at 28 January 2012

### 19. Financial instruments

NEXT operates a centralised treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the Group's activities, including the Company Treasury policy is reviewed and approved by the NEXT plc Board and specifies the parameters within which treasury operations must be conducted, including authorised counterparties, instrument types and transaction limits, and principles governing the management of liquidity, interest and foreign currency risks

The Company's principal financial instruments are cash and short term deposits and various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations

#### *Liquidity risk*

The Company's cash and borrowing requirements are managed centrally by the NEXT Group treasury function to minimise net interest expense within risk parameters agreed by the NEXT plc Board, whilst ensuring that the Company has sufficient liquid resources to meet the operating needs of its business

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

2012	Less than 1 year £000	1 to 2 years £000	2 to 5 years £000	Over 5 years £000	Total £000
Trade and other payables	139,987	-	-	-	139,987
Finance lease liabilities	144	140	282	-	566
Total cash outflows	<u>140,131</u>	<u>140</u>	<u>282</u>	<u>-</u>	<u>140,553</u>

2011	Less than 1 year £000	1 to 2 years £000	2 to 5 years £000	Over 5 years £000	Total £000
Trade and other payables	135,391	-	-	-	135,391
Finance lease liabilities	186	144	410	12	752
Total cash outflows	<u>135,577</u>	<u>144</u>	<u>410</u>	<u>12</u>	<u>136,143</u>

#### *Foreign currency and interest rate risks*

The Company has no foreign currency denominated financial assets or liabilities and is not exposed to significant foreign currency risk and is not party to any related derivative instruments. The Company is not exposed to significant interest rate risk on its bank deposits

#### *Credit risk*

All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts

The Company's outstanding receivables balances are detailed in Note 10

#### *Capital risk*

The capital structure of the Company consists of issued equity share capital and retained earnings as shown in the statement of changes in equity. The Company manages its capital with the objective of continuing as a going concern while maintaining an efficient structure to minimise the cost of capital. The Company is not subject to any externally imposed capital requirements

#### *Fair value of financial instruments*

The fair values of each category of the Company's financial instruments are the same as their carrying value in the Company's balance sheet



## Notes to the Financial Statements

at 28 January 2012

### 19. Financial instruments (continued)

#### *Analysis of financial instrument categories*

	2012 £000	2011 £000
Financial assets		
Loans and receivables	77,432	50,223
Cash and short term deposits	20,089	8,469
Financial liabilities		
Amortised cost	(139,987)	(135,391)
Finance lease obligations	(520)	(679)

### 20. Analysis of net funds

	January 2011 £000	Cash flow £000	January 2012 £000
Cash and short term deposits	8,469	11,620	20,089
Cash and cash equivalents	8,469	11,620	20,089
Finance leases	(679)	159	(520)
Total net funds	7,790	11,779	19,569

	January 2010 £000	Cash flow £000	January 2011 £000
Cash and short term deposits	3,884	4,585	8,469
Cash and cash equivalents	3,884	4,585	8,469
Finance leases	(1,031)	352	(679)
Total net funds	2,853	4,937	7,790

### 21. Related party transactions

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

	2012 £000	2011 £000
Transactions with parent companies		
Recharge of costs	(3,960)	(3,961)
Loan advance	-	50,000
Dividend paid	-	(50,000)
Transactions with other group companies		
Rendering of services	339,214	304,188
Recharge of costs	(312,867)	(271,981)

## **Notes to the Financial Statements**

**at 28 January 2012**

### **22. Ultimate parent company and controlling party**

The Company's immediate parent is NEXT Group plc. The Company's ultimate parent company and controlling party is NEXT plc, a company registered in England & Wales. NEXT plc is the only group preparing accounts which include NEXT Distribution Limited. Copies of its group accounts are available from its Company Secretary at its registered office, Desford Road, Enderby, Leicester, LE19 4AT.