Next Retail Limited

Report and Financial Statements

30 January 2010

Registered No 4521150

Financial statements

Contents | **Page**

Registered in England & Wales

Desford Road
Enderby
Leicester
LE19 4AT

Directors' report and business review

The Directors present their report and financial statements for the year ended 30 January 2010

Results and dividends

The profit for the year, after taxation, amounted to £253,452,000 (2009 £173,355,000) No dividend was paid during the year (2009 £nil) The Directors do not propose payment of a final dividend

Principal activities and review of the business

The principal activities of the Company during the year comprised the supply of Next brand merchandise including Womenswear, Menswear, Childrenswear, Lingerie, Shoes, Sportswear, Accessories, Fashion Jewellery, Cosmetics and Home Furnishings, through a chain of retail shops in the UK, Eire, Scandinavia and Germany (Next Retail), a home shopping catalogue and website (Next Directory) and a franchise network with overseas partners

Business strategies and objectives

The Company's principal objective is to provide exciting, beautifully designed, excellent quality clothing, footwear, accessories and home products, presented in collections that reflect the aspirations and means of Next customers The Directors aim to achieve this objective by implementing the following strategies

- Improving and developing Next product ranges, success in which is reflected in total sales and like for like sales performance

- Profitably increasing Next selling space New store appraisals must meet demanding financial criteria before the investment is made and success is measured by monitoring achieved sales and profit contribution against appraised targets

- Increasing the number of Next Directory customers and their average spend

- Managing gross and net margins by better sourcing, continuous cost control and efficient management of stock levels and working capital

Review of the year

During the year we have made good progress in improving and developing our product ranges, expanding our store portfolio, refitting our stores, developing our online business and controlling costs We believe the Next brand has emerged from the recession in better shape than it entered, and is well placed to make progress in what we anticipate will be another challenging year There are four reasons for the significant improvement in our performance, one is external and three are internal

External factor - economy

The recession did not impact consumer spending as much as most people expected Employment only decreased by 1 8% (circa 500,000) despite unemployment rising by circa 900,000 The modest drop in employment combined with increased state benefit payments and lower interest rates meant that overall UK disposable income actually increased in 2009, with consumption remaining broadly flat

Internal factors

We believe there has been a marked improvement in our ranges, in particular we have been much faster to adopt new trends

We were able to recover more of the decline in the value of Sterling from our supply base than expected Therefore, bought in gross margins did not decrease nearly as much as anticipated We had underestimated the extent to which new sources of supply would be able to improve cost prices and the extent to which our existing manufacturers' dollar cost base would decrease

We also exceeded our targets for cost savings across the Company

Directors' report and business review

NEXT RETAIL

Retail sales

Retail sales finished the full year 3 5% ahead of last year, however this includes a 53rd week of sales and the 52 week comparison would have been a 2 0% increase As a result of effective stock control 16% less stock went into the end of season Sales

Retail like for like sales

	2010		2009	
	No stores	*LFL %*	*No stores*	*LFL %*
Total	420	+0 1%	410	-7 9%
Underlying	401	+0 3%	348	-6 5%
Total sales (excl VAT)	£2,274 2m		£2,197 9m	

Next defines like for like stores as those that have traded for at least one full year and have not benefited from significant capital expenditure Sales from those stores for the current year are then compared to the same period in the previous year to calculate like for like sales figures Underlying like for like sales applies the same calculation to only those stores which were unaffected by new store openings

New space

We increased trading space by 257,000 square feet in the year, increasing our portfolio to 517 stores

	2010	*2009*	*Annual change*
Store numbers	517	510	+1 4%
Square feet (000's)	5,763	5,506	+4 7%

Selling space is defined as the trading floor area of a store, excluding stockroom, administration and other non-trading areas

The payback on net capital invested in new space is forecast to be 13 months and net store contribution is forecast to be 21% These forecasts are comfortably ahead of our financial hurdles of 24 months payback and 15% contribution We opened 9 Home stand alone stores, taking our total out of town Home stores to 18 These stores are making a contribution of 19% and will pay back the capital invested in 14 months

We expect to open a total of 340,000 square feet in the year ahead Included in this number is 150,000 square feet in 12 new Home stand alone stores

During the year we opened 5 trial Sports Departments in existing Next stores These departments incorporate non-Next branded sportswear such as Adidas and Puma alongside our own NX Sport brand This trial has been successful and we plan to open a further 17 Sports Departments in the first half of this year, with more to come in the second half

We continue to invest in improving our stores During the year we spent £26m refitting and £7m extending our stores, this year we intend to spend a further £18m on cosmetic refits, £6m on new sports and shoe departments and £17m on extensions Three years ago we started a programme to reinvigorate the look and feel of our stores, the vast majority of which was now in keeping with our brand We expect that a capital investment of £20m per annum with be required to maintain the image of our stores

Directors' report and business review

Retail profit

Net operating margin in Next Retail increased from 13 1% to 14 2% The increase in margin is detailed in the table below, the figures show the change as a percentage of sales for each of our major heads of cost

	2010	*2009*
Net operating margin last year	13 1%	14 2%
Increase in achieved gross margin	+1 0%	+1 4%
Decrease/increase in occupancy costs	+0 3%	-2 1%
Change in store payroll costs	0 0%	+0 1%
Increase in other costs	-0 2%	-0 5%
Net operating margin this year	**14.2%**	13 1%

Gross margin is the difference between the cost of stock and the initial selling price Net operating margin is the residual profit after deducting markdowns and all direct and indirect trading costs Both are expressed as a percentage of the achieved VAT exclusive selling price

The weakness of Sterling was an enormous challenge to our margins However, we were able to contain the drop in bought in gross margin to just 0 4% Lower cost prices were achieved by moving to new sources of supply and negotiating better terms with existing suppliers, many of whom were able to pass on the benefits of lower dollar input costs Lower VAT, significant freight savings and reduced fabric wastage also mitigated currency weakness to contain the drop in bought in gross margin to 0 4%

The improved achieved gross margin was primarily a result of reducing the markdown charge by 1 4% We marked down 16% less stock in our mainline stores (at original retail selling value) and improved the sell through in our clearance stores This reduction was partly as a result of improved stock control but also as a result of us significantly beating our initial sales budgets We do not anticipate that there will be the same opportunity to save further markdown in the year ahead

Occupancy costs decreased as a percentage of sales and improved margin by 0 3%, this was largely as a result of lower energy costs In those stores that had a review, rent increased on a compound annual basis by 3 8% This increase was partially offset as a result of disputed rents being settled at lower levels than originally reserved

Store wages were flat as a percentage of sales, despite a 1% annual pay award, increased premiums for working on Boxing Day and higher staff bonus payments This was achieved as a result of improvements to the way we schedule the hours worked in our stores In the year ahead we again expect savings in worked hours to offset wage increases

Warehousing and distribution savings improved margin by 0 5% due to lower charges for processing Sale stock and other efficiency projects This was offset by other overheads eroding margin by 0 7%, mainly due to increased staff incentives and charges for sponsoring the 2012 Olympic Games

Directors' report and business review

NEXT DIRECTORY

Directory sales

Directory sales finished the year up 7 0% (5% on a 52 week basis) Growth was driven through a 3 6% increase in the average number of active customers and a small (0 2%) increase in pages The internet continues to be very important to the development of the Directory and now accounts for over 70% of our orders

	2010	*2009*	*Annual change*
Total sales (excl VAT)	£873 2m	£816 4m	+7 0 %
Average active customers	2,282,000	2,202,000	+3 6 %
Average sales per customer	£382	£371	+3 0%
Number of pages	3,968	3,960	+0 2%

Active customers are defined as those who have placed an order in the last 20 weeks or who are paying off a current balance The average for the year is calculated as a weighted average of each week's figure Average sales per customer are calculated as statutory sales divided by the average number of customers

Directory profit

Next Directory operating margin was up 1 7% on last year The margin movement is detailed below

	2010	*2009*
Net operating margin last year	**19.3%**	20 6%
Increase/decrease in achieved gross margin	**+0.5%**	-1 2%
Decrease in bad debt	**+0.7%**	0 0%
Decrease/increase in service charge income	**-0 3%**	+0 2%
Decrease/increase in other costs	**+0.8%**	-0 3%
Net operating margin this year	**21.0%**	19 3%

The bought in gross margin decreased by 0 4%, in line with Retail and for the same reasons Directory generated 13% less margin stock which increased gross margin by 0 9% Achieved gross margin increased by 0 5%

Bad debt improved against a very difficult period last year Service charge income did not grow as fast as sales and as a result margin was eroded by 0 3%

Warehousing and distribution costs improved margin by 1 0% Delivery charge revenue was up by £3 5m as customers placed smaller orders more often The balance of the improvement came from numerous small cost saving initiatives We achieved efficiencies in book distribution and customer recruitment which gave a margin improvement of 0 7% An increase in other overheads eroded margin by 0 9%, mainly due to increased staff incentives and Olympic sponsorship

Outlook

In the current environment, the outlook for the year ahead is hard to predict The biggest challenge this year will be to absorb the increase in VAT without raising prices to customers For the Spring Summer season we have succeeded in sourcing lower prices, which broadly offset the effect of increased VAT, so our prices will not be affected We have yet to source a significant quantity of stock for the Autumn, but increased commodity prices (particularly cotton) may lead to modest inflation in our Autumn Winter cost prices There are no significant threats to other costs in the year ahead, which are generally very well controlled

Directors' report and business review

NEXT INTERNATIONAL

Many of the overseas markets in which we trade have been affected by the world wide recession International sales have been difficult with sales in our franchise stores being down 7% on a like for like basis

We are now serving customers in 35 overseas countries through our international website NextDirect com Stock is held, picked and packed in our UK warehouses We are using a number of different third parties to deliver from our warehouses to overseas customers We charge €5 to deliver to mainland Europe within seven working days We are now able to deliver to the USA in two business days and charge US$10 per order

To date our focus has been on establishing reliable overseas operations and we have not as yet spent significant time or money on marketing In the year ahead we will test and develop marketing methods overseas, with trials having just started in the USA We anticipate that over the next twelve months our International website turnover will be circa £7m, generating a profit of £1 4m

RISKS AND UNCERTAINTIES

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

Business strategy development and implementation

If the Board adopts the wrong business strategy or does not implement its strategies effectively, the business may suffer The Board needs to understand and properly manage strategic risk in order to deliver long term growth for the benefit of Next's stakeholders The Board reviews business strategy on a regular basis to determine how sales and profit budgets can be achieved or bettered and business operations made more efficient This process involves the setting of annual budgets and longer term financial models to identify ways in which the Company can increase shareholder value Critical to these processes are the consideration of wider economic and industry specific trends that affect the Company's businesses, the competitive position of its product offer and the financial structure of the Company

Credit risk and liquidity

In the current economic climate, the Company remains exposed to a greater degree of credit risk than in previous years, albeit at a lower level than twelve months ago Rigorous procedures are in place with regard to the Company's credit customers and these procedures are regularly reviewed and updated as required Key suppliers whose services are essential to the successful running of the business also face credit risk These include the supply and printing of the Directory, provision of core IT systems and certain systems and suppliers in the Company's delivery and distribution network The Company's risk assessment procedures for key suppliers enables it to identify alternatives and develop contingency plans in the event any of these suppliers fail

Management team

The success of Next depends in part on the continued service of its senior management and technical personnel and on its ability to continue to attract, motivate and retain highly qualified employees The retail sector is very competitive and Next staff are frequently targeted by other companies for recruitment The Remuneration Committee identifies senior personnel, reviews their packages 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 business The Company is nevertheless exposed to short supply of highly qualified candidates in the labour market to fill all key management positions and there can be no assurance that the Company will continue to be successful in attracting, retaining or motivating necessary personnel

Directors' report and business review

Product design and selection

The success of Next depends on providing exciting, beautifully designed, excellent quality clothing and homeware Success also depends upon its ability to anticipate and respond to changing consumer preferences and trends Many of Next's products represent discretionary purchases and demand for these products can decline in a recession or other period in which consumer confidence is negatively affected Executive directors and senior management continually review the design and selection of Next's product ranges This ensures, so far as possible, that there is a well-balanced product mix on offer, that is good value for money and in sufficient quantities at the right time to meet customer demand

Key suppliers and supply chain management

Next is dependent on its supplier base to deliver products on time and to the quality standards it specifies It continually seeks ways in which to develop and extend its supplier base so as to reduce any over-reliance on particular suppliers of product and services and to improve on the competitiveness of its product offer This is achieved by development of existing and new sources of supply through its own sourcing operation, NSL, as well as through external agents and direct from suppliers

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

Development of retail store network and Directory customer base

Growth of Next's retail business is dependent upon increasing the floor space within its store network and customers spending more Next will continue to invest in new stores where its financial criteria are met and refurbish its existing portfolio when appropriate Whilst the anticipated effect of sales deflection is factored into new store appraisals, there can be no assurance that the impact of new openings will not result in a greater deflection of sales from existing stores

Successful development of new stores is dependent upon a number of factors including the identification of suitable properties, obtaining planning permissions and the negotiation of acceptable purchase or lease terms Although there have been a number of retail casualties over the last year, prime sites are still in great demand While rents have eased, increased competition (particularly out of town) will possibly result in higher rents going forwards

Growth of the Next Directory business depends upon the recruitment and retention of its customer base and increasing the average spend per customer Next will continue to recruit new customers where they satisfy its credit score requirements However, there can be no assurance that new customers will result in higher sales per customer or lower incidence of bad debts, compared with the existing customer base

Warehousing and distribution

Next 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 and Directory customers in a timely and cost-efficient manner

IT systems and business continuity

Next 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 enhancements 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

Call centre capacity and service levels
Next is dependent on the efficient operation of its call centres to receive and respond to customer orders and enquiries in its home shopping and customer service management businesses Insufficient manpower and interruption in the availability of telephony systems to meet customer service requirements are the principal risks The Company continuously monitors call centre operations that support the Next Directory business to ensure that there is sufficient capacity to handle call volumes and satisfy clients' customer service level requirements Capacity forecasting is used to manage peak demands and growth in business volumes and customer and client satisfaction is measured on a regular basis Business continuity plans ensure the risk of business interruption is minimised

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

Equal opportunities
Next is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination Full consideration is given to 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
Next aims to realise the potential of its employees by supporting their career progression and promotion wherever possible It makes significant investment in the training and development of staff and in training and education programmes which contribute to the internal promotion prospects of employees

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

Employees of the Company participate in management and sharesave option schemes offered by Next plc The Next Group Pension Plan, operated by Next plc, provides a valuable pension benefit to the Company's employees, details of which are set out in the Next plc annual report and accounts

SOCIAL AND ENVIRONMENTAL MATTERS
Next is committed to the principles of responsible business For Next this means delivering value to customers and stakeholders, recruiting and retaining the best people to work for the Company, developing positive relationships with suppliers and developing healthy links with the communities in which it operates

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

Suppliers
Next is a member of the Ethical Trading Initiative and operates a Code of Practice ("COP"), an established set of ethical trading standards which forms an integral part of the Company's operations The Next COP has ten key principles that stipulate the minimum standards with which suppliers are required to comply in relation to workers rights and conditions of work including working hours, minimum age of employment, health, safety, welfare and environmental issues Through its COP Next seeks to ensure all products bearing the Next brand are produced in a clean and safe environment and in accordance with all relevant laws

Directors' report and business review

Next is committed to its internal supplier audit and management programme and has a COP audit team of 40 staff (2009 37) The COP team works directly with suppliers to identify and address causes of non-compliance Each audited factory is measured against the COP and is graded against its six tier rating system The supplier is made aware of its rating and what is required to improve that rating via a corrective action plan This direct approach also allows Next to build knowledge and understanding in the local communities, as well as monitoring suppliers through its auditing process

Supplier payment policy
Next'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 30 January 2010, the Company had an average of 24 days (2009 27 days) based on the ratio of the trade creditors at the end of the year to the amounts paid during the year to trade creditors

Customers

Next is committed to offering stylish, excellent quality products to its customers and aims to ensure they are safe and fit for purpose and are sourced in a responsible manner Its team of technologists works closely with buyers, designers and suppliers to ensure Next products comply with all relevant legislation The expertise of independent safety specialists for clothing, footwear, accessories, beauty and home products is used where required

Next endeavours to provide inclusive, high quality service to all customers, whether they are shopping through its stores, catalogues or website The different methods of shopping must be easily accessible for all customers and be responsive to their particular needs

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

Health and safety

Next recognises the importance of health and safety 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

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

During the year all areas of the business have implemented energy saving initiatives and undertaken employee training to reduce energy consumption Examples include replacing existing lighting schemes with more efficient bulbs, installation of occupancy sensors to dim or turn off lights when areas are unoccupied and interrogation of store energy consumption to identify, investigate and correct unusual consumption patterns

During 2008 Next began the construction of its own recycling centre to process cardboard and polythene waste created in the business, which became fully operational in 2009 To achieve the long term aim of no operational waste being sent to landfill, further streams of dry waste materials have been identified that can be segregated and collected for recycling, such as tissue, paper, plastic bottles, timber and metals

Next complies with the Waste Electrical and Electronic Equipment (WEEE) Regulations through participation in a UK wide WEEE collection system to enable its customers to recycle electrical products free of charge at UK recycling sites

Community

Next is working with a number of charities both in the UK and overseas to raise funds through the sale of specific products where a donation from the sale of each product is passed to the charity We have continued to support Soul of Africa, an imaginative self-help initiative which resources groups of unemployed workers in Africa with materials and skills to make hand stitch shoes and t-shirts In addition we have continued to support a number of health charities through the sale of Next Christmas cards and clothing products

No donations were made for political purposes (2009 nil)

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 that 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, and their assessment of the Company's financial position 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

Directors' report and business review

AUDITORS

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

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 himself aware of any relevant audit information to establish that the Company's auditors are aware of that information

By order of the board

A J R McKinlay
Secretary

28 June 2010

Statement of directors' responsibilities in respect of the financial statements

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

The Directors are required to prepare financial statements for each financial year which present fairly the 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 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 it its business

The Directors are responsible for keeping proper accounting records 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 Retail Limited

We have audited the Company's financial statements for the year ended 30 January 2010 which comprise the Income statement, Statement of comprehensive income, Balance sheet, the Statement of changes in equity, Cash flow statement and the related Notes 1 to 29 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 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
As explained more fully in the Statement of directors' responsibilities, 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 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

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 30 January 2010 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 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

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

29 June 2010

Income statement
for the year ended 30 January 2010

	Notes	2010 £000	2009 £000
Revenue	2	3,204,066	3,075,643
Cost of sales		(2,326,409)	(2,278,776)
Gross profit		877,657	796,867
Net operating expenses		(440,913)	(401,404)
Operating profit	3	436,744	395,463
Finance income	6	56	42
Finance costs	6	(77,005)	(147,515)
Profit before taxation		359,795	247,990
Taxation	7	(106,343)	(74,635)
Profit for the year		253,452	173,355

Statement of comprehensive income
for the year ended 30 January 2010

	Notes	2010 £000	2009 £000
Profit for the year		253,452	173,355
Other comprehensive income and expenses			
(Losses)/gains on cash flow hedges		(34,723)	155,208
Tax relating to components of other comprehensive income	7	23,737	(21,768)
		(10,986)	133,440
Reclassification adjustments			
Transferred to income statement on cash flow hedges		(55,706)	(14,058)
Transferred to the carrying amount of hedged items on cash flow hedges		5,657	(63,408)
Other comprehensive(expense)/ income for the year		(61,035)	55,974
Total comprehensive income for the year		192,417	229,329

Registered in England, no 4521150

Balance sheet
at 30 January 2010

	Notes	*2010* *£000*	*2009* *£000* *Restated*	*2008* *£000* *Restated*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant & equipment	8	327,769	355,047	346,076
Intangible assets	9	2,496,368	2,496,368	2,496,368
Deferred tax assets	7	7,270	-	-
		2,831,407	2,851,415	2,842,444
Current assets				
Inventories	10	311,516	299,037	293,661
Trade and other receivables	11	516,833	504,118	471,557
Other financial assets	12	2,739	90,276	6,715
Cash and short term deposits	13	25,490	18,532	125,254
		856,578	911,963	897,187
Total assets		3,687,985	3,763,378	3,739,631
Current liabilities				
Bank overdrafts	14	(95,056)	(148,283)	(57,598)
Trade and other payables	15	(2,797,186)	(3,030,365)	(3,346,441)
Other financial liabilities	16	(9,448)	(12,213)	(6,394)
Current tax liability		(106,453)	(75,963)	(80,093)
		(3,008,143)	(3,266,824)	(3,490,526)
Non-current liabilities				
Creditors amounts falling due after more than one year		(9,982)	-	-
Deferred tax liabilities	7	-	(25,142)	(6,461)
Total liabilities		(3,018,125)	(3,291,966)	(3,496,987)
Net assets		669,860	471,412	242,644
EQUITY				
Share capital	20	1	1	1
Fair value reserve		(6,709)	78,063	321
Retained earnings		676,568	393,348	242,322
Total equity		669,860	471,412	242,644

D W Keens
Director

28 June 2010

Statement of changes in equity
at 30 January 2010

	Share capital £000	*Fair value reserve £000*	*Retained earnings £000*	*Total £000*
At January 2008	1	321	258,358	258,680
Change of accounting policies	-	-	(16,036)	(16,036)
At January 2008 as restated	1	321	242,322	242,644
Profit for the year	-	-	173,355	173,355
Other comprehensive income for the year	-	77,742	(21,768)	55,974
Total comprehensive income for the year	-	77,742	151,587	229,329
Tax recognised directly in equity	-	-	(561)	(561)
At January 2009	1	78,063	393,348	471,412
Profit for the year	-	-	253,452	253,452
Other comprehensive income for the year	-	(84,772)	23,737	(61,035)
Total comprehensive income for the year	-	(84,772)	277,189	192,417
Tax recognised directly in equity	-	-	6,031	6,031
At January 2010	1	(6,709)	676,568	669,860

Cash flow statement

for the year ended 30 January 2010

	Notes	2010 £000	2009 restated £000
Cash flows from operating activities			
Operating profit		436,744	395,463
Depreciation		93,350	88,672
Impairment		4,521	-
Loss on disposal of property, plant & equipment		4,924	4,991
Increase in inventories		(12,479)	(5,376)
Increase in trade and other receivables		(12,715)	(32,561)
Decrease in trade and other payables		(223,197)	(316,076)
Cash generated from operations		291,148	135,113
Corporation taxes paid		(78,497)	(82,413)
Net cash from operating activities		212,651	52,700
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		60	55
Acquisition of property, plant & equipment		(75,577)	(102,689)
Net cash from investing activities		(75,517)	(102,634)
Cash flows from financing activities			
Interest paid		(77,005)	(147,515)
Interest received		56	42
Net cash from financing activities		(76,949)	(147,473)
Net increase/(decrease) in cash and cash equivalents		60,185	(197,407)
Opening cash and cash equivalents		(129,751)	67,656
Closing cash and cash equivalents	27	(69,566)	(129,751)

Notes to the financial statements
at 30 January 2010

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 the Companies Act 2006

The financial statements have been prepared on the historical cost basis except for certain financial instruments and share based payment liabilities 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

Goodwill

Goodwill arising on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Company's interest in the net fair value of the acquired entity's identifiable assets and liabilities at the date of acquisition

Goodwill is not amortised, but is reviewed for impairment at least annually, any impairment is recognised immediately in the income statement and is not subsequently reversed

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

Goodwill arising before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value

Depreciation is provided to write down the cost of plant, property 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

The useful lives generally applicable are summarised as follows

Fixtures and fittings	6 – 15 years
Vehicles, IT and other assets	2 – 6 years

Investments

Investments in subsidiary companies and equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, subject to review for impairment

Impairment

The carrying values of non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment If any 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

Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired

Notes to the financial statements
at 30 January 2010

1. Accounting policies (continued)

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

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

Trade and other receivables
Trade receivables are stated at original invoice amount plus any accrued service charge (in the case of Directory customer receivables) 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

Share based payments
The fair value of employee share options granted on or after 7 November 2002 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

Notes to the financial statements

at 30 January 2010

1. Accounting policies (continued)

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

Revenue

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

Sales of goods are recognised when goods are delivered and title has passed Interest income, including Directory service charge, is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate Income from rendering of services is recognised when the services have been performed Royalty income is recognised in line with sales reported by the Company's franchise partners

Foreign currencies

The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the rate ruling at the date of the transaction 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 recognised in the income statement for the period

Financial instruments

Derivative financial instruments

Derivative financial instruments ("derivatives") are used to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products In accordance with its treasury policy, the Company does not enter into derivatives for speculative purposes

Derivatives are stated at their fair value The fair value of foreign currency derivative contracts is their quoted market value at the balance sheet date Market values are calculated using mathematical models and are based on the duration of the derivative instrument together with quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date

Hedge accounting

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement When the asset or liability for the hedged transaction is recognised in the balance sheet, the associated gain or loss on the hedging instrument previously recognised in equity is included in the carrying amount of the hedged asset or liability Gains or losses realised on cash flow hedges are then recognised in the income statement in the same period as the hedged item

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the income statement

Changes in the fair value of derivatives which do not qualify for hedge accounting are recognised in the income statement as they arise

Notes to the financial statements

at 30 January 2010

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 in the UK which consists of a 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

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

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

Significant areas of estimation and judgment

The preparation of the financial statements requires judgments, estimations and assumptions to be made that affect the reported values of assets, liabilities, revenues and expenses The nature of estimation means that the actual outcomes could differ from those estimates Significant areas of estimation for the Company include the expected future cash flows applied in measuring the impairment of trade receivables and property, plant & equipment, and estimated selling prices applied in determining the net realisable values of inventories

Impact of changes to accounting standards

Change in accounting policy

An amendment to IAS 38 *Intangible Assets* requires that all advertising and marketing costs, including production costs of the Next Directory, are recognised in the income statement when the goods or services have been received Prior to this amendment, such costs were charged to the income statement during the season in which the related marketing activity took place

This change in accounting policy has been applied retrospectively, decreasing net assets by £16,036,000 at each comparative balance sheet date As the effect on earnings was not material in each period, reported profits for prior periods have not been restated Restated balance sheets from the beginning of the comparative period (January 2008) are presented in accordance with IAS 1 (revised) *Presentation of Financial Statements*

Notes to the financial statements
at 30 January 2010

1. Accounting policies (continued)

Change in accounting policy (continued)

The impact of the change in policy on each relevant line in the financial statements was as follows

	2009	*2008*
	£000	*£000*
Trade and other receivables	(16,852)	(15,556)
Trade and other payables	(5,420)	(6,716)
Deferred Tax	6,236	6,236
Retained earnings	(16,036)	(16,036)

While it is not practicable to determine the precise impact of the change in policy on the January 2010 balance sheet, the differences would be expected to be similar to those shown for the preceding two periods above

Other changes adopted in the current year

IAS 1 (revised) *Presentation of Financial Statements*
This is a presentational change only, affecting the titles and positioning of items within the financial statements, including the format of the primary statements which are now the Income statement, Statement of comprehensive income, Balance sheet, Statement of changes in equity and Cash flow statement There is no impact on reported profits or total equity

IFRS 2 *Share based Payment - Vesting Conditions and Cancellations (Amendment)*
The amendment clarifies treatment of vesting conditions and cancellations of share based payments This has not affected the Company's accounting treatment and there has therefore been no impact on reported profits or total equity

IFRS 7 *Financial Instruments Disclosures (Amendment)*
Additional disclosures relating to a hierarchy for measurement of fair values of financial instruments are now required, there is no impact on reported profits or total equity

Other changes in accounting standards future years

The Company has not adopted early IFRS 3 (Revised) *Business Combinations*, which will affect the accounting for any acquisitions made during the Company's financial year ending January 2011 Acquisitions made prior to that date will not be affected

Various amendments have arisen from the Improvements to International Financial Reporting Standards (2009) and other new standards or amendments in the year, none of which are expected to have a significant impact on the Company's reported profits or equity

Notes to the financial statements
at 30 January 2010

2. Revenue

	2010	*2009*
	£000	*£000*
Sale of goods	3,079,620	2,956,431
Rendering of services	115,857	110,741
Royalties	8,589	8,471
	3,204,066	3,075,643

Rendering of services includes £113,796,000 (2009 £108,568,000) of service charge on Directory customer receivables

3. Operating profit before interest

This is stated after charging / (crediting)

	2010	*2009*
	£000	*£000*
Depreciation on owned assets	93,350	88,672
Loss on disposal of property, plant & equipment	4,924	4,991
Impairment of property, plant & equipment	4,521	-
Operating lease rentals		
Minimum lease payments	3,209	3,020
Net foreign exchange differences	17,175	21,834
Auditors' remuneration		
Audit services	167	151
Corporate finance services	77	-
Cost of inventories recognised as an expense	1,284,046	1,246,467
Write down of inventories to net realisable value	78,090	95,760
Trade receivables		
Impairment charge	37,090	40,349
Amounts recovered	(6,319)	(6,540)

Notes to the financial statements
at 30 January 2010

4. Staff costs

	2010 £000	2009 £000
Wages and salaries	380,046	346,341
Social security costs	23,648	22,864
Other pension costs	31,271	15,569
	434,965	384,774
Share based payments expense		
Equity settled	7,951	7,611
Cash settled	9,229	1,100
	452,145	393,485

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

	2010 No	2009 No
Next Brand	39,092	41,694
Other activities	191	39
	39,283	41,733

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 20,552 (2009 21,088)

5. Directors' emoluments

None of the Directors received any remuneration from the Company for the year ended 30 January 2010 (2009 £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

6. Finance income and costs

	2010 £000	2009 £000
Interest on bank deposits	2	42
Other interest receivable	54	-
Total finance income	56	42
Interest on bank loans and overdrafts	71	291
Other interest payable	10	16
Interest payable to group undertakings	76,924	147,208
Total finance costs	77,005	147,515

Notes to the financial statements
at 30 January 2010

7. Taxation

	2010	*2009*
	£000	*£000*
Current tax		
UK corporation tax on profits of the year	115,844	78,515
Adjustments in respect of previous years	(6,236)	-
Relief for overseas tax	(2,890)	(3,842)
	106,718	74,673
Overseas tax	2,890	3,842
Total current tax	109,608	78,515
Deferred tax		
Origination and reversal of temporary differences	(12,635)	(2,364)
Adjustments in respect of previous years	9,370	(1,516)
Tax expense reported in the income statement	106,343	74,635

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

	2010	*2009*
	%	%
UK corporation tax rate	28 0	28 3
Expenses not deductible for tax purposes	1 5	2 4
Tax under/(over) provided in previous years	0 1	(0 6)
Effective total tax rate on profit before taxation	29 6	30 1

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

	2010	*2009*
	£000	*£000*
Deferred tax		
Movements on derivative instruments	(23,737)	21,768
Tax (credit)/charge in the statement of comprehensive income	(23,737)	21,768

	2010	*2009*
	£000	*£000*
Current tax		
Share based payments	(621)	(232)
Deferred tax		
Share based payments	(5,410)	793
Tax (credit)/charge in the statement of changes in equity	(6,031)	561

Notes to the financial statements
at 30 January 2010

7. Taxation (continued)

Deferred taxation

	2010 *£000*	*2009* *£000* *Restated*	*2008* *£000* *Restated*
Accelerated capital allowances	5,991	10,152	14,498
Revaluation of derivatives to fair value	(1,879)	21,858	90
Share based payments	(9,696)	(379)	(1,623)
Other temporary differences	(1,686)	(6,489)	(6,504)
	(7,270)	25,142	6,461

The movement in the year is as follows

	2010 *£000*	*2009* *£000* *Restated*	*2008* *£000* *Restated*
At January 2009	25,142	6,461	(5,125)
(Credited)/charged to the income statement			
Accelerated capital allowances	(4,161)	(4,346)	(199)
Share based payments	(3,907)	451	5,008
Other temporary differences	4,803	15	727
Recognised directly in the statement of comprehensive income	(23,737)	22,561	12,286
Recognised directly in the statement of changes in equity	(5,410)	-	-
Change of accounting policy (prior year adjustment)	-	-	(6,236)
At January 2010	(7,270)	25,142	6,461

Notes to the financial statements
at 30 January 2010

8. Property, plant and equipment

	Plant and vehicles £000
Cost	
At January 2008	753,063
Additions	102,689
Disposals	(22,605)
At January 2009	833,147
Additions	75,566
Transfer from group undertakings	13
Disposals	(23,006)
At January 2010	885,720
Depreciation	
At January 2008	406,987
Provided during the year	88,672
Disposals	(17,559)
At January 2009	478,100
Provided during the year	93,350
Transfer from group undertakings	2
Impairment	4,521
Disposals	(18,022)
At January 2010	557,951
Carrying amount	
At January 2010	327,769
At January 2009	355,047
At January 2008	346,076

At 30 January 2010 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £10,615,000 (2009 £10,164,000)

Notes to the financial statements
at 30 January 2010

9. Intangible assets: goodwill

	£000
Carrying amount	
At January 2010, January 2009 and January 2008	2,496,368

Goodwill relates entirely to the acquisition of the business and net assets of Next Near East Limited on 1 February 2003 and is tested for impairment at the balance sheet date The recoverable amount of goodwill at 30 January 2010 was measured on the basis of value in use As this exceeded carrying value, no impairment loss was recognised

The key assumptions in the calculation are the growth in Next Brand sales and expected net margins achieved In assessing value in use the most recent financial results and internal budgets for the next year were used and extrapolated in perpetuity with no growth assumed, and discounted at 8%

10. Inventories

	2010 £000	2009 £000
Work in progress	1,427	738
Finished goods	310,089	298,299
	311,516	299,037

11. Trade and other receivables

	2010 £000	2009 £000 Restated	2008 £000 Restated
Trade and customer receivables	614,715	588,236	557,211
Less allowance for doubtful debts	(121,710)	(115,926)	(108,853)
	493,005	472,310	448,358
Amounts owed by group undertakings	5,745	5,246	1,134
Amounts due from associated undertakings	415	316	46
Other debtors	4,099	10,823	7,252
Prepayments and accrued income	13,569	15,423	14,767
	516,833	504,118	471,557

Amounts due from group undertakings are repayable on demand

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to the historical default rate for the preceding 365 days of 1 6% (2009 1 7%), although default rates over shorter periods may show significant variations

No interest is charged on Directory customer receivables for the first 30 days from the date of the dispatch of goods, thereafter balances bear interest at a variable annual percentage rate of 26 49% (2009 26 49%) Expected irrecoverable amounts on balances between 30 and 120 days overdue are provided for based on past default experience Customer receivables which are more than 120 days overdue are considered to be impaired and are provided for in full With effect from the current year, customer receivables which are impaired otherwise than by age of default are separately identified and provided for in full The ageing analysis below has been restated at January 2009 to reflect the revised presentation

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

Notes to the financial statements
at 30 January 2010

11. Trade and other receivables (continued)

Ageing of trade receivables

	2010 *£000*	*2009* *£000*
Current	459,576	421,111
0 – 30 days past due	37,036	53,739
30 – 60 days past due	13,222	18,740
60 – 90 days past due	5,989	8,160
90 – 120 days past due	3,870	5,180
Over 120 days past due	79,473	69,839
Otherwise impaired	15,549	11,467
	614,715	588,236

Movement in the allowance for doubtful debts

	2010 *£000*	*2009* *£000*
Opening position	115,926	108,853
Amounts charged to the income statement	37,090	40,349
Amounts written off as uncollectible	(24,987)	(26,736)
Amounts recovered during the year	(6,319)	(6,540)
Closing position	121,710	115,926

12. Other financial assets

	2010 *£000*	*2009* *£000*
Foreign exchange contracts	2,739	90,276

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Company's overseas purchases The instruments purchased are denominated in US Dollars and Euros

13. Cash and short term deposits

	2010 *£000*	*2009* *£000*
Cash at bank and in hand	25,490	18,532

Cash at bank earns interest at floating rates based on daily bank deposit rates Short term deposits are made for varying periods of between one day and three months depending on the cash requirements of the Company, and earn interest at market short term deposit rates

14. Bank loans and overdrafts

	2010 *£000*	*2009* *£000*
Bank overdrafts and overnight borrowings	95,056	148,283

Bank overdrafts and overnight borrowings are repayable on demand and bear interest at a margin over bank base rates

Notes to the financial statements
at 30 January 2010

15. Trade and other payables

	2010 £000	2009 £000 Restated	2008 £000 Restated
Trade payables	154,612	171,551	145,411
Amounts owed to parent undertakings	1,631,806	1,369,311	1,284,911
Amounts owed to other group undertakings	809,983	1,340,325	1,749,567
Other taxation and social security	61,566	47,821	57,203
Other creditors and accruals	139,219	101,357	109,349
	2,797,186	3,030,365	3,346,441

Trade payables are not interest-bearing and are generally settled on 30 day terms Other creditors and accruals are not interest-bearing Amounts due to group undertakings are repayable on demand

16. Other financial liabilities

	2010 £000	2009 £000
Foreign exchange contracts	9,448	12,213

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Company's overseas purchases The instruments purchased are denominated in US Dollars and Euros

17. Retirement benefit schemes

Employees of the Company are eligible in the UK for membership of the Next Group Pension Plan, which consists of a 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, pensionable earnings are comprised of basic pay, overtime and, prior to the 1 October 2006, annual performance bonuses From 1 October 2006, sales and profit related bonuses are no longer taken into account The most recent formal actuarial valuation was undertaken by an independent professionally qualified actuary as at 31 March 2008 using the projected unit method

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 Next plc 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 net deficit in the plan on an IAS 19 basis at 30 January 2010 was £49 5m (2009 £69 1m) Pension contributions for the Group will continue to be set at a level that takes account of the past service funding position of the plan The contributions made by the Company in respect of the year ending 30 January 2010 include £22 0m in addition to the regular cost of the plan (2009 £7 8m)

The defined contribution section is for all members who joined after October 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 The assets of the plan are held in a separate trustee administered fund

Notes to the financial statements
at 30 January 2010

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

	2010 *£000*	*2009* *£000*
Within one year	421	434
After one year but not more than five years	834	1,390
	1,255	1,824

The Company has entered into operating leases in respect of vehicles, equipment, warehouses, office equipment and retail stores These non-cancellable leases have remaining terms of between 1 month and 4 years

19. 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

20. Share capital

		Authorised
	2010 *£000*	*2009* *£000*
Ordinary shares of £1 each	1	1

	Allotted, called up and fully paid			
		2010		*2009*
	No	*£000*	*No*	*£000*
Ordinary shares of £1 each	1,000	1	1,000	1

Notes to the financial statements
at 30 January 2010

21. Equity settled share based payments

Employees of the Company participate in management and sharesave option schemes offered by Next plc Management share options are granted annually at the prevailing market price at the time of grant and are exercisable between three and ten years following their grant The sharesave option scheme operates on a save-as-you-earn principle, and offers options at a discount of 20% to the prevailing market rate at the time of grant, exercisable three, five or seven years after the date of grant Further details of these schemes are provided in the Group's consolidated financial statements The fair value of management and sharesave options granted is calculated at the date of grants using a Black-Scholes option pricing model

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year

	2010 Options (No)	*2010* Weighted average exercise price (p)	*2009* Options (No)	*2009* Weighted average exercise price (p)
Outstanding at beginning of period	10,853,458	1338	7,842,510	1535
Granted during the period	2,955,501	1405	4,899,130	1020
Forfeited during the period	(463,000)	1248	(1,504,792)	1478
Exercised during the period	(2,019,640)	1399	(383,390)	755
Outstanding at end of period	11,326,319	1351	10,853,458	1338
Exercisable at end of period	2,091,824	1477	2,626,685	1331

Included in the above balances were options over 143,000 shares (2009 238,444) that were granted prior to 7 November 2002 and which have not been subsequently modified and are therefore not required to be recognised in accordance with IFRS 2

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was 1838p (2009 1183p) Options outstanding at 30 January 2010 are exercisable at prices ranging between 499p and 2189p (2009 499p–2189p), and have a weighted average remaining contractual life of 6 6 years (2009 6 4 years), further analysed in the table below

Exercise price range	*2010* No of options outstanding	*2010* Weighted average remaining contractual life (years)	*2009* No of options outstanding	*2009* Weighted average remaining contractual life (years)
499p – 916p	180,538	1 9	321,102	2 9
917p – 1058p	1,739,357	2 9	2,007,914	3 8
1081p	2,933,461	8 2	3,012,517	9 2
1131p – 1399p	2,597,623	8 9	483,188	1 1
1412p – 1495p	1,365,521	4 6	1,825,132	6 0
1514p – 1620p	1,224,340	5 2	1,899,401	5 9
2189p	1,285,479	7 2	1,304,204	8 2
Outstanding at end of period	11,326,319	6 6	10,853,458	6 4

Notes to the financial statements
at 30 January 2010

21. Equity settled share based payments (continued)

The following table lists the inputs to the model used for options granted in the years ended 24 January 2009 and 30 January 2010 based on information at the date of grant

	2010	*2009*
Management share options		
Weighted average share price at date of grant (p)	1399	1081
Weighted average exercise price (p)	1399	1081
Volatility (%)	39 50	27 00
Expected life (years)	4 00	4 00
Risk free rate (%)	2 54	4 06
Dividend yield (%)	3 93	5 08
Weighted average fair value (£)	3 44	1 74
Sharesave plans		
Weighted average share price at date of grant (p)	1792	1146
Weighted average exercise price (p)	1434	917
Volatility (%)	43 15	37 18
Expected life (years)	3 52	3 63
Risk free rate (%)	1 92	3 95
Dividend yield (%)	3 07	4 80
Weighted average fair value (£)	6 02	3 32

Expected volatility was determined by calculating the historical volatility of the Next plc 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

22. Financial instruments: risk management

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, other than derivatives, are cash, bank overdrafts 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 undiscounted remaining contractual cash flows of the Company's financial liabilities at 30 January 2010 and 24 January 2009 all mature within one year of the balance sheet date

Interest rate risk
Interest is payable on loan balances with other group companies, no derivatives are used to manage this exposure

Notes to the financial statements
at 30 January 2010

22. Financial instruments: risk management (continued)

Foreign currency risk

The Company's principal foreign currency exposures arise from the purchase of overseas sourced products The Company enters into foreign exchange derivative transactions with other group companies in order to manage these exposures by fixing the cost in sterling for up to 12 months ahead Derivatives are not entered into for speculative purposes

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the balance sheet date are detailed in the table below The Company's net exposure to foreign currencies, taking hedging activities into account is illustrated by the sensitivity analysis in Note 26

	Assets		*Liabilities*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
US dollar	2,606	71,745	(50,060)	(62,985)
Euro	5,121	19,943	(17,815)	(45,170)
Other	3,136	2,851	(784)	(360)

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 concentration of credit risk is limited due to the Directory customer base being large and diverse

The Company's outstanding receivables balances are detailed in Note 11

Capital risk

The capital structure of the Group consists of equity attributable to the equity holders of the parent company, comprising issued capital, reserves 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

23. Financial instruments: hedging activities

Cash flow hedges

The Company uses derivative instruments in order to manage foreign currency exchange risk arising on expected future purchases of overseas sourced products during the next twelve months These derivatives comprise forward currency contracts, the terms of which have been negotiated to match the terms of the expected purchases Fair values of derivatives which qualify for hedge accounting under IAS 39 are as follows

	2010	*2009*
	£000	*£000*
Fair value of hedging instruments	(6,709)	78,063

24. Financial instruments. fair values

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

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

Notes to the financial statements
at 30 January 2010

25. Financial instruments: categories

	2010	2009 restated
	£000	£000
Financial assets		
Derivatives in designated hedging relationships	2,739	90,276
Loans and receivables	503,085	482,578
Cash and short term deposits	25,490	18,532
Financial liabilities		
Derivatives in designated hedging relationships	(9,448)	(12,213)
Amortised cost	(2,809,896)	(3,092,552)

26. Financial instruments: sensitivity

Foreign currency sensitivity analysis

The Company's principal foreign currency exposures are to US Dollars and the Euro The table below illustrates the hypothetical sensitivity of the Company's reported profit and equity to a 10% increase and decrease in the US Dollar/Sterling and Euro/Sterling exchange rates at the year end date, assuming all other variables remain unchanged The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change, based on historic volatility

The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the fair value reserve in equity and the fair value of the hedging derivatives For foreign exchange derivatives which are not designated hedges, movements in exchange rates impact the income statement

Positive figures represent an increase in profit or equity

	Income statement		*Equity*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Sterling strengthens by 10%				
US dollar	2,853	4,513	(13,670)	(17,638)
Euro	995	2,261	(1,070)	(931)
Sterling weakens by 10%				
US dollar	(2,853)	(4,513)	13,670	17,638
Euro	(995)	(2,261)	1,070	931

Interest rate sensitivity analysis

The table below illustrates the hypothetical sensitivity of the Company's reported profit and equity to a 1 0% increase or decrease in interest rates, assuming all other variables were unchanged The sensitivity rate of 1 0% represents the Directors' assessment of a reasonably possible change as at 30 January 2010, based on historical volatility

The analysis has been prepared using the following assumptions

- For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to have been outstanding for the whole year
- Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis

Positive figures represent an increase in profit or equity

	Income statement		*Equity*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Interest rate increase of 1 0%	(11,118)	(14,679)	(11,118)	(14,679)
Interest rate decrease of 1 0%	11,118	14,679	11,118	14,679

Notes to the financial statements
at 30 January 2010

27. Analysis of net funds

	January 2009 *£000*	*Cash flow* *£000*	*January 2010* *£000*
Cash and short term deposits	18,532	6,958	25,490
Overdrafts	(148,283)	53,227	(95,056)
Total net funds	(129,751)	60,185	(69,566)

	January 2008 *£000*	*Cash flow* *£000*	*January 2009* *£000*
Cash and short term deposits	125,254	(106,722)	18,532
Overdrafts	(57,598)	(90,685)	(148,283)
Total net funds	67,656	(197,407)	(129,751)

28. Related party transactions

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

	2010 *£000*	*2009* *£000*
Transactions with parent company		
Recharge of costs	(45,244)	(42,435)
Funds borrowed	(228,663)	(62,687)
Interest payable	(55,919)	(51,600)
Transactions with other group companies		
Purchase of goods	(525,242)	(581,674)
Sale of goods	5,440	4,858
Rendering of services	(4,350)	(4,441)
Recharge of costs	898	10,112
Loan repayments	(537,844)	(400,000)
Interest payable	(21,005)	(95,608)
Transactions with associate companies		
Sale of goods	3,365	2,401

29. 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 Retail Limited Copies of its group accounts are available from its Company Secretary at its registered office, Desford Road, Enderby, Leicester, LE19 4AT