

GROUP ACCOUNTING POLICIES

Basis of preparation

The financial statements of NEXT plc and its subsidiaries ("the Group") 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 certain financial instruments, pension assets and liabilities and share-based payment liabilities which are measured at fair value. The financial statements are for the 52 weeks to 25 January 2014 (last year 52 weeks to 26 January 2013).

Except for the immaterial effect of the amendment to IAS 19 (described on page 80), there have been no changes to our group accounting policies this year or last year and the principal policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NEXT plc ("the Company") and its subsidiary undertakings. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The results of any subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. The results and net assets of associated undertakings are incorporated into these financial statements using the equity method of accounting.

Foreign currencies

The consolidated financial statements are presented in pounds Sterling, which is the Company's functional and presentation currency. The Group includes foreign entities whose functional currencies are not Sterling. On consolidation, the assets and liabilities of those entities are translated at the exchange rates at the balance sheet date and income and expenses are translated at weighted average rates during the period. Translation differences are recognised in equity.

Transactions in currencies other than an entity's functional currency are recorded at the exchange rate on the transaction date, whilst assets and liabilities are translated at exchange rates at the balance sheet date. Exchange differences are recognised in the income statement.

Revenue

Revenue represents the fair value of amounts receivable for goods and services and is stated net of sales taxes and returns. Sales of goods are recognised on delivery. Directory service charge income is accrued on a time basis by reference to the principal outstanding and the effective interest rate. Revenue from the sale of gift cards is deferred until their redemption.

Underlying profit and exceptional items

Exceptional items are significant items of an unusual or non-recurring nature which are shown separately in the income statement to provide a clearer understanding of the underlying financial performance during the year. Further details are given in Note 6.

Property, plant & equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Depreciation is charged so as to write down the cost of assets to their estimated residual values over their remaining useful lives on a straight line basis. Estimated useful lives and residual values are reviewed at least annually and are summarised as follows:

Freehold and long leasehold property	50 years
Plant and fittings:	
Plant, machinery and building works	10 – 25 years
Fixtures and fittings	6 – 15 years
Vehicles, IT and other assets	2 – 6 years
Leasehold improvements	the period of the lease, or useful life if shorter

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Goodwill

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. Goodwill is not amortised, but is reviewed for impairment annually or whenever there is an indication of impairment.

Other intangible assets

Separately identifiable intangible assets obtained in a business acquisition are initially recognised at fair value, if this can be measured reliably and the asset arises from contractual or other legal rights. Other intangible assets are amortised on a straight line basis over their expected useful lives as follows:

Lipsy brand names and trademarks	10 years
Lipsy customer relationships	4 years

Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable.

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 impairment loss arises, the asset value is adjusted to its estimated recoverable amount and the difference is recognised in the income statement.

Pension arrangements

The Group offers pension benefits which include both defined benefit and defined contribution arrangements. Pension assets are held in separate trustee administered funds and the Group also provides other, unfunded, pension benefits to certain plan members.

The cost of providing benefits under the defined benefit and unfunded arrangements are determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net defined benefit pension asset or liability represents the fair value of the defined benefit plan assets less the present value of the defined benefit and unfunded liabilities. A net pension asset is only recognised to the extent that it is expected to be recoverable in the future.

Actuarial gains and losses are recognised in the statement of comprehensive income in full in the period in which they occur. Other income and expenses are recognised in the income statement. The accounting impact of an amendment to IAS 19 *Employee Benefits* is explained on page 80.

The cost of the defined contribution section is recognised in the income statement as incurred.

Inventories

Inventories (stocks) are 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.

Directory and other receivables

Directory customer receivables represent outstanding customer balances less any allowance for impairment which is based on objective evidence and recent default experience by customer account category. Other trade receivables are stated at invoice value less any allowance for impairment.

Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and short term deposits, less bank overdrafts which are repayable on demand. Short term deposits are those with an original maturity of three months or less.

Corporate bonds and bank borrowings

Corporate bonds and bank borrowings are initially recognised at fair value and subsequently adjusted where hedge accounting applies (see interest rate derivatives below). Accrued interest is included within other creditors and accruals.

Share-based payments

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

For cash-settled share-based payments (including the long term incentive plan), the fair value of the liability is determined at each balance sheet date and the cost is recognised in the income statement over the vesting period.

Taxation

Taxation, comprised of current and deferred tax, is charged or credited to the income statement unless it relates to items in other comprehensive income or directly in equity. In such cases, the related tax is also recognised in other comprehensive income or directly in equity.

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 is accounted for using the balance sheet liability method and is calculated using rates of taxation enacted or substantively enacted at the balance sheet date which are expected to apply when the asset or liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is not recognised in respect of investments in subsidiaries and associates where the reversal of any taxable temporary differences can be controlled and are unlikely to reverse in the foreseeable future.

Other financial assets and liabilities: derivative financial instruments and hedge accounting

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 and changes in interest rates relating to the Group's debt. In accordance with its treasury policy, the Group does not enter into derivatives for speculative purposes. Foreign currency and interest rate derivatives are stated at their fair value, being the estimated amount that the Group would receive or pay to terminate them at the balance sheet date based on prevailing foreign currency and interest rates.

Foreign currency derivatives

Changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in equity in the fair value reserve, and subsequently transferred to the carrying amount of the hedged item or the income statement. Realised gains or losses on cash flow hedges are therefore 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 foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS 39 are recognised in the income statement.

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Interest rate derivatives

The Group uses interest rate derivatives to hedge part of the interest rate risk associated with the Company's corporate bonds. The carrying values of the relevant bonds are adjusted only for changes in fair value attributable to the interest rate risk being hedged. The adjustment is recognised in the income statement and is offset by movements in the fair value of the derivatives.

Changes in the fair value of interest rate derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS 39 are recognised in the income statement.

Share buybacks

The Group has regularly returned surplus cash to shareholders through share buybacks. Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable. The Company also uses contingent share purchase contracts and irrevocable closed period buyback programmes. The obligation to purchase shares is recognised in full at the inception of the contract, even when that obligation is conditional on the share price. Any subsequent reduction in the obligation caused by the expiry or termination of a contract is credited back to equity at that time.

Shares held by ESOT

The NEXT Employee Share Ownership Trust ("ESOT") provides for the issue of shares to Group employees, principally under share option schemes. Shares in the Company held by the ESOT are included in the balance sheet at cost as a deduction from equity. The ESOT may also use contingent share purchase contracts and irrevocable closed period share purchase programmes which are accounted for as described above.

Provisions

A provision is recognised where the Group 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

Rentals payable under operating leases are charged to income on a straight line basis over the period of the lease. Contingent rentals payable based on store revenues are accrued in line with the related sales.

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.

The Group does not have significant finance leases.

Significant areas of estimation and judgement

The preparation of the financial statements requires judgements, estimations and assumptions to be made that affect the reported values of assets, liabilities, revenues and expenses. The nature of estimation means that actual outcomes could differ from those estimates. Significant areas of estimation for the Group include the expected future cash flows applied in measuring impairment of Directory customer receivables (Note 14), estimated selling prices applied in determining the net realisable values of inventories (Note 13 and inventories policy above) and the actuarial assumptions applied in calculating the net retirement benefit obligation (Note 21). The Audit Committee section of the Corporate Governance Report (page 34) contains further information on the judgmental areas considered by the Committee during the year.

Changes to accounting standards

An amendment to IAS 19 *Employee Benefits* was published in June 2011 and became effective during the current year. This affects the accounting for defined benefit pension schemes and has been applied this year.

If applied retrospectively, the effect of the amendment on last year would have been to increase pension costs in the income statement by £2.6 million and to increase actuarial gains in the statement of comprehensive income by an equivalent amount. There is no impact on the balance sheet. As the impact is not material, prior year figures have not been restated and remain as reported last year.

Various other new accounting standards and amendments were issued during the year, none of which have had or are expected to have any significant impact on the Group.