Actuarial gains and losses are recognised in full in the period in which they occur, are recognised directly in equity and are presented in the statement of recognised income and expense. Other income and expenses associated with the defined benefit section are recognised in the income statement.

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

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

Assets used by the Group which have been funded through finance leases are capitalised in property, plant and equipment and the resulting lease obligations are included in liabilities. The assets are depreciated over their useful lives and the interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to income on a straight line basis over the period of the lease. 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.

**Significant areas of estimation and judgment**
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 trade receivables, estimated selling prices applied in determining the net realisable values of inventories and the actuarial assumptions applied in calculating the net retirement benefit obligation.

**New accounting standards**
The Group has adopted the disclosure requirements of IFRS 7 *Financial instruments*: *Disclosures* and the related amendment to IAS 1 *Presentation of Financial Statements: Capital Disclosures* in the current year. Full comparative figures are presented. The adoption of these standards has not led to any changes in the Group's accounting policies.

IFRIC 10 *Interim Financial Reporting and Impairment* also became effective in the current financial year but had no impact on the Group's accounting policies.

The Group has not adopted early IFRS 8 *Operating Segments*, which is effective for Group's financial statements from the year ending January 2010, or IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* which is effective for the Group's financial statements from the year ending January 2009. These standards are not expected to have a significant impact on the Group's accounting policies or measurement of results or net assets.

**1. Segmental analysis**

The results for the financial year are for the 52 weeks to 26 January 2008 (last year 52 weeks to 27 January 2007) with the exception of Ventura, Next Sourcing and certain other activities which relate to the calendar year to 31 January.

For management purposes the Group comprises a number of divisions, the activities of which are detailed in the Chief Executive's Review. These divisions comprise the business segments which form the Group's primary format for segmental reporting. Secondary information is presented by geographical segment.

**By Business Sector**

| | External revenue | | Internal revenue | | Total revenue | | Operating profit | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m |
| Next Retail | **2,255.1** | 2,255.0 | **–** | – | **2,255.1** | 2,255.0 | **319.9** | 316.6 |
| Next Directory | **799.8** | 774.5 | **–** | – | **799.8** | 774.5 | **164.4** | 143.9 |
| Next Brand | **3,054.9** | 3,029.5 | **–** | – | **3,054.9** | 3,029.5 | **484.3** | 460.5 |
| Next International | **54.1** | 49.8 | – | – | **54.1** | 49.8 | **7.1** | 6.0 |
| Next Sourcing | **6.4** | 6.4 | **613.5** | 597.2 | **619.9** | 603.6 | **32.8** | 31.8 |
| Ventura | **203.7** | 190.9 | **6.9** | 6.5 | **210.6** | 197.4 | **21.5** | 20.6 |
| Other | **10.0** | 7.2 | **159.7** | 151.7 | **169.7** | 158.9 | **(8.6)** | (11.4) |
| Eliminations | **–** | – | **(780.1)** | (755.4) | **(780.1)** | (755.4) | – | – |
| | **3,329.1** | 3,283.8 | **–** | – | **3,329.1** | 3,283.8 | **537.1** | 507.5 |

Significant non-cash items in the Other segment operating profit include share option charges of £8.8m (2007: £8.3m) and unrealised foreign exchange gains of £2.3m (2007: losses of £2.0m).

Transactions between business segments are made on an arm's length basis in a manner similar to those with third parties. Segment revenue, segment expense and segment operating profit include transactions between business segments; these transactions are eliminated on consolidation.

| | Assets | | Liabilities | | Capital expenditure | | Depreciation | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m |
| Next Retail | **2,843.3** | 2,740.5 | **2,974.4** | 2,977.5 | **170.8** | 130.7 | **99.5** | 93.6 |
| Next Directory | **1,250.0** | 1,187.3 | **801.5** | 836.1 | **1.0** | 0.6 | **1.1** | 1.2 |
| Next Brand | **4,093.3** | 3,927.8 | **3,775.9** | 3,813.6 | **171.8** | 131.3 | **100.6** | 94.8 |
| Next International | **30.1** | – | **4.4** | – | **0.4** | – | **–** | – |
| Next Sourcing | **167.9** | 130.3 | **60.2** | 62.8 | **1.3** | 1.7 | **1.7** | 1.7 |
| Ventura | **101.1** | 110.5 | **81.3** | 96.5 | **3.3** | 6.5 | **5.6** | 5.5 |
| Other | **7,636.9** | 7,623.6 | **2,935.9** | 2,359.2 | **2.6** | 0.6 | **0.5** | 0.3 |
| Eliminations | **(10,398.9)** | (10,221.2) | **(5,148.2)** | (4,950.4) | **–** | – | **–** | – |
| | **1,630.4** | 1,571.0 | **1,709.5** | 1,381.7 | **179.4** | 140.1 | **108.4** | 102.3 |

Other segment assets include subsidiary investments of £2,644.2m (2007: £2,642.1m), intra-group balances of £4,655.5m (2007: £4,708.0m), and other assets held centrally of £337.2m (2007: £273.5m).

Other segment liabilities include intra-group balances of £1,637.4m (2007: £1,454.9m), group borrowings of £649.2m (2007: £593.9m) and other liabilities of £649.4m (2007: £310.4m) which cannot be attributed to reportable segments on a reasonable basis.

**1. Segmental analysis (continued)**

Asset eliminations above comprise elimination of intra-group receivables of £5,040.4m (2007: 4,951.5m) and investments of £5,135.8m (2007: £5,135.5m) and reclassifications and other adjustments of £222.7m (2007: £134.2m). Liability eliminations comprise elimination of intra-group payables of £4,965.2m (2007: £4,891.7m) and reclassifications and other adjustments of £183.0m (2007: £58.7m).

**By Geographical Location**

| | External revenue | | Capital expenditure | | Assets | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **£m** | £m | **£m** | £m | **£m** | £m |
| United Kingdom | **3,161.6** | 3,125.8 | **167.7** | 138.3 | **1,547.4** | 1,487.6 |
| Rest of Europe | **132.9** | 120.4 | **9.9** | – | **31.5** | 26.8 |
| Middle East | **23.3** | 26.4 | **0.2** | 0.2 | **14.8** | 2.8 |
| Asia | **11.3** | 11.2 | **1.6** | 1.6 | **36.7** | 51.2 |
| | **3,329.1** | 3,283.8 | **179.4** | 140.1 | **1,630.4** | 1,568.4 |
| UK deferred tax | | | | | **–** | 2.6 |
| | | | | | **1,630.4** | 1,571.0 |

**2. Revenue and trading profit**

| | **2008** | 2007 |
|---|---|---|
| | **£m** | £m |
| Sale of goods | **3,000.5** | 2,978.7 |
| Rendering of services | **313.9** | 291.6 |
| Rental income | **6.6** | 6.9 |
| Royalties | **8.1** | 6.6 |
| Revenue | **3,329.1** | 3,283.8 |
| Cost of sales | **(2,380.0)** | (2,370.3) |
| Distribution costs | **(235.6)** | (222.8) |
| Administrative expenses | **(178.2)** | (183.4) |
| Other gains/(losses) | **0.6** | (1.2) |
| Trading profit | **535.9** | 506.1 |

Rendering of services includes £104.4m (2007 £98.1m) of service charge on Directory customer receivables.

Other gains/(losses) are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **£m** | £m |
| Other financial assets at fair value through profit or loss: | | |
| Fair value gains | **–** | 0.8 |
| Fair value losses | **(1.7)** | – |
| Foreign exchange derivatives: | | |
| Held for trading | **2.3** | (2.0) |
| | **0.6** | (1.2) |

Gains and losses on cash flow hedges removed from equity and included in profit or loss for the period comprise gains of £28.6m (2007: £6.2m) included in cost of sales and losses of £0.4m (2007: £nil) included in administrative expenses.

### 3. Operating profit

Group operating profit is stated after charging/(crediting):

| | 2008 £m | 2007 £m |
|---|---|---|
| Depreciation on assets: | | |
| Owned | **107.8** | 101.8 |
| Leased | **0.6** | 0.5 |
| Loss on disposal of property, plant & equipment | **5.0** | 2.9 |
| Operating lease rentals: | | |
| Minimum lease payments | **164.4** | 154.2 |
| Contingent rentals payable | **7.2** | 8.6 |
| Net foreign exchange (gains)/losses | **(4.5)** | 0.7 |
| Cost of inventories recognised as an expense | **1,291.1** | 1,327.5 |
| Write down of inventories to net realisable value | **121.5** | 110.0 |
| Trade receivables: | | |
| Impairment charge | **40.1** | 51.2 |
| Amounts recovered | **(4.5)** | (2.7) |

| | 2008 £000 | 2007 £000 |
|---|---|---|
| *Auditors' remuneration* | | |
| Audit services – group | **168** | 138 |
| Other services: | | |
| Subsidiary statutory audit | **303** | 332 |
| Tax | **21** | 26 |
| Corporate finance | **60** | 12 |
| Other | **19** | 47 |
| | **571** | 555 |