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**NEXT plc**

*(incorporated with limited liability in England and Wales with registered number 4412362)*

**£325,000,000 5.375 per cent. Bonds due 2021**

**Issue price: 99.894 per cent.**

The £325,000,000 5.375 per cent. Bonds due 2021 (the **Bonds**) are issued by Next plc (the **Issuer**).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority** and the **FSMA** respectively) for the Bonds to be admitted to the Official List of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Bonds to be admitted to trading on the London Stock Exchange's regulated market (the **Market**).

References in this Prospectus to the Bonds being **listed** (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

**An investment in the Bonds involves certain risks. For a discussion of these risks see "Risk Factors".**

Interest on the Bonds is payable annually in arrear on 26 October in each year except that the first payment will be made in respect of the period from and including 26 May 2011 to but excluding 26 October 2011. Payment on the Bonds will be made without deduction for or on account of taxes in the United Kingdom to the extent described under "*Terms and Conditions of the Bonds – Taxation*".

The Issuer may, at its option, redeem all, but not some only, of the Bonds at any time at par plus accrued interest, in the event of certain tax changes as described under "*Terms and Conditions of the Bonds – Redemption for Taxation Reasons*". The Bonds mature on 26 October 2021, subject as set out in "*Terms and Conditions of the Bonds – Redemption at the Option of the Holders*".

The Bonds are expected to be assigned a rating on issue of Baa2 by Moody's Investors Service Limited and BBB by Standard & Poor's Credit Market Services Europe Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited are established in the European Union and have applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

The Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without interest coupons, which will be deposited on or about 26 May 2011 (the **Closing Date**) with a common depository for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond, the **Global Bonds**), without interest coupons, on or after a date which is expected to be 5 July 2011 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds in bearer form in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, with interest coupons attached, only in certain limited circumstances – see "*Summary of Provisions relating to the Bonds while represented by the Global Bonds*".

*Joint Lead Managers*

**Barclays Capital**

**HSBC**

**Lloyds Bank Corporate Markets**

**The Royal Bank of Scotland**

*Co-Lead Managers*

**Goldman Sachs International**

**UBS Investment Bank**

The date of this Prospectus is 24 May 2011

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the **Prospectus Directive**).

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the offering, sale or delivery of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers (as defined under “*Subscription and Sale*” below). Neither the delivery of this Prospectus nor the offering, sale or delivery of the Bonds shall, under any circumstances, constitute a representation or create any implication that there has been no change or any event reasonably likely to involve any change in the affairs of the Issuer or the Issuer and its subsidiaries (together, the **Group**) since the date hereof. The Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer and/or the Group during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention. Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds constitutes an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Bonds.

The Managers and The Law Debenture Trust Corporation p.l.c. (the **Trustee**) have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the Bonds or their distribution. No Manager or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Bonds or their distribution.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Managers or any of them or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the offering of the Bonds should purchase any Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Bonds and on distribution of this Prospectus, see “*Subscription and Sale*” below.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Managers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Managers or the Trustee which is intended to permit a public offering of the Bonds or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the

offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States and the United Kingdom. See “*Subscription and Sale*”.

**IN CONNECTION WITH THE ISSUE OF THE BONDS, THE ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

All references in this document to **Sterling, pounds sterling** and **£** refer to the currency of the United Kingdom.

## CONTENTS

	<b>Page</b>
Risk Factors .. .. .	5
Documents Incorporated by Reference .. .. .	11
Terms and Conditions of the Bonds .. .. .	12
Summary of Provisions Relating to the Bonds while Represented by the Global Bonds .. ..	24
Use of Proceeds .. .. .	26
Description of the Issuer .. .. .	27
Taxation .. .. .	29
Subscription and Sale .. .. .	31
General Information .. .. .	32

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Accordingly, the Issuer does not represent that the statements below regarding the risks of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under the Bonds**

#### **1. The following risk factor applies to the business of the Issuer**

The Issuer is a public limited company and parent company of the Group. The business operations of the Group are based predominantly in the United Kingdom and Eire and are carried on through subsidiary companies. The Issuer's principal asset is its investment in Next Group Plc which holds investments in the principal trading entities. As such, the Issuer is dependent upon dividend and other cash inflows from its subsidiaries to meet its financial obligations.

#### **2. The following risk factors apply to the business of the Group**

##### *Business strategy development and implementation*

If the Issuer's Board of Directors (the **Board**) adopts a business strategy or strategies which has a perceived or actual negative impact on revenue 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 the Issuer'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 Group can increase shareholder value. Critical to these processes are the consideration of wider economic and industry specific trends that affect the Group's businesses, the competitive position of its product offer and the financial structure of the Group.

##### *Credit risk and liquidity*

The Group is exposed to credit risk in respect of its Next Directory and other business customers. Rigorous procedures are in place with regard to the Group'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 Next Directory, provision of core IT systems and certain systems and suppliers in the Group's delivery and distribution network. The Group's risk assessment procedures for key suppliers enables it to identify alternatives and develop contingency plans in the event any of these suppliers fail.

The Group has medium and long term financing in place to support its business operations for the foreseeable future. The Board continues to assess the Issuer's exposure to counterparty risk in the light of the prevailing economic climate both in the UK and globally and its treasury policy is amended as necessary to restrict counterparties with which deposits, investments and other transactions may be made.

##### *Management team*

The success of the Group relies on the continued service of its senior management and technical personnel and on its ability to continue to attract, motivate and retain highly qualified employees. The retail sector is very competitive and the Group's staff are frequently targeted by other companies for recruitment. In order to mitigate this risk the Group's Remuneration Committee identifies senior personnel, reviews their remuneration at least annually and formulates packages that are structured to retain and motivate these employees. In addition, the Board considers the development of senior

managers to ensure that there are adequate career development opportunities for key personnel and an orderly succession and promotion to all important management positions within the Group's businesses.

#### *Product design and selection*

The success of the Group depends on continuing to provide 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 the Group's products represent discretionary purchases and demand for these products can decline in periods in which consumer confidence is negatively affected. As a consequence, the Group may be faced with surplus stocks that cannot be sold at full price and have to be disposed of at a loss. Executive directors and senior management continually review the design and selection of the Group'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*

The Group relies on its supplier base to deliver products on time and to the quality standards it specifies. It continually seeks ways to develop and extend its supplier base so as to reduce any over-reliance on particular suppliers of product and services, and to improve the competitiveness of its product offer. If input costs rise, for example, costs of raw materials such as cotton or manufacturing labour costs overseas, the Issuer's management will work with existing suppliers to mitigate the inflationary impact. When necessary, new sources of supply will be developed in conjunction with the "Next Sourcing", its own sourcing operation, as well as through external agents and existing direct suppliers.

Non-compliance by suppliers with the Issuer's Code of Practice may increase reputational risk. Therefore, the Group 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. The Issuer also monitors and reviews the financial, political and geographical aspects of its supplier base to identify any factors that may affect the continuity or quality of supply of its products to the Group.

#### *Retail store network*

Growth of the Group's retail business is dependent in part upon increasing the floor space within its store network, widening the customer base and increasing spending by existing customers. The Group will continue to invest in new stores where its financial criteria are met and refurbish its existing portfolio when appropriate. The anticipated effect of sales deflection is factored into new store appraisals but 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. Notwithstanding that there have been a number of retail failures in the market generally in recent years, prime sites remain subject to significant competition between retailers. In such circumstances, increased competition can result in higher rents going forwards.

#### *Next Directory customer base*

Growth of the Next Directory business depends upon the recruitment and retention of its customer base and increasing the average spend per customer. The Group 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.

In addition, the Group requires its internet website to attract new customers and encourage its existing customers to continue ordering from the Next Directory. Management continually reviews the configuration, content and functionality of the website to ensure it enhances the customer shopping experience. Service levels and response times are also monitored to ensure that the website is both resilient and secure at all times.

#### *Warehousing and distribution*

Risks include business interruption due to physical property damage, access restrictions, breakdowns in warehouse systems, capacity shortages, inefficient processes and delivery service failures. The Group

regularly reviews its warehouses and the related logistics operations that support its businesses. 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, Next Directory customers and third party clients in a timely and cost-efficient manner.

#### *IT systems and business continuity*

The Group is dependent upon the continued availability and integrity of its computer systems. Each of its businesses must record and process a substantial volume of data and conduct inventory management accurately and quickly. The Group 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.

#### *Call centre capacity and service levels*

The Group 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 Group continuously monitors call centre operations that support the Next Directory and Ventura businesses (as described under “*Description of the Issuer – Other business activities*” below) 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 whilst customer and client satisfaction is measured on a regular basis. Business continuity plans ensure the risk of business interruption is minimised.

#### *Treasury and financial risk management*

The main financial risks of the Group relate to the availability of funds to meet business needs, default by counterparties to financial transactions (see “– *Credit risk and liquidity*” above), and fluctuations in interest and foreign exchange rates. In addition, the Issuer’s business expansion and share buyback strategy may necessitate the raising of additional finance, which can in turn increase interest costs and could give rise to fluctuations in profit. Higher debt levels would also result in an increase in the proportion of cash flow dedicated to servicing debt and potentially increase its exposure to interest rate fluctuations.

The Group operates a centralised treasury function which is responsible for managing its liquidity, interest and foreign currency risks. The Group’s treasury policy allows the use of derivative instruments provided they are not entered into for speculative purposes. Further details of the Group’s treasury operations are given in Notes 28 to 32 to the Issuer’s consolidated financial statements for the year ended 29 January 2011, which are incorporated by reference into this Prospectus. (See “*Documents Incorporated by Reference*” below.)

In addition, the Issuer has to fund its defined benefit pension scheme and ensure that sufficient contributions are made to meet its outstanding liabilities as they fall due. If the Issuer fails to provide sufficient and timely funding, action may be taken by either the pension scheme trustees, or the Pensions Regulator, which could result in an acceleration and/or an increase in overall contributions towards any resulting deficit. Management meets regularly with the trustees of its pension scheme to assess fund performance, as well as to agree future contribution levels and any necessary changes to future benefits to be provided to members of the scheme.

### **Factors which are material for the purpose of assessing the market risks associated with the Bonds**

#### ***The Bonds may not be a suitable investment for all investors***

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the potential investor's currency is not pounds sterling;
- (iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### ***Risks related to the Bonds***

Set out below is a brief description of certain risks relating to the Bonds:

#### *Modification, waivers and substitution*

The Terms and Conditions of the Bonds and the Trust Deed contain provisions for convening meetings of Bondholders to consider any matter affecting their interests. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds and the Trust Deed also provide that the Trustee may, without the consent of the Bondholders or Couponholders, (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or the Trust Deed or (ii) determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, provided that, in either case, in the opinion of the Trustee, it will not be materially prejudicial to the interests of Bondholders, or may agree, without such consent as aforesaid, to any modification of the provisions of the Bonds or the Trust Deed which, in its opinion, is of a formal, minor or technical nature or is to correct a manifest or proven error.

The Trust Deed contains provisions under which the Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer that any Subsidiary (as defined in Condition 3) of the Issuer be substituted in place of the Issuer as the principal debtor under the Trust Deed and the Bonds provided that certain conditions, as specified in Condition 13 of the Bonds and the Trust Deed, are fulfilled, including the Bonds being unconditionally and irrevocably guaranteed by the Issuer and the Trustee being satisfied that the substitution is not materially prejudicial to the interests of the Bondholders.

#### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Bonds as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.



### *Change of law*

The Terms and Conditions of the Bonds are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

### *Denominations involve integral multiples: definitive Bonds*

The Bonds have denominations consisting of a minimum of £100,000 plus one or more higher integral multiples of £1,000. It is possible that the Bonds may be traded in amounts that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to at least £100,000.

If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

### ***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *The secondary market generally*

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severe adverse effect on the market value of the Bonds.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Bonds in pounds sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of pounds sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to pounds sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

An investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

#### *Credit ratings may not reflect all risks*

Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited, will assign credit ratings to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the

CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings referred to in this Prospectus is set out on the front page of this Prospectus.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Prospectus:

- (a) the auditors' report and audited financial statements of the Issuer and the Group for the financial year ended 29 January 2011 including the information set out at the following pages of the Issuer's January 2011 Annual Report and Accounts:
  - (i) Consolidated Balance Sheet (page 45);
  - (ii) Issuer's Balance Sheet (page 48);
  - (iii) Consolidated Income Statement (page 43) and Consolidated Statement of Comprehensive Income (page 44);
  - (iv) Accounting Policies and Notes (pages 51 – 84); and
  - (v) Auditors' Report (pages 41 – 42); and
- (b) the auditors' report and audited financial statements of the Issuer and the Group for the financial year ended 30 January 2010 including the information set out at the following pages of the Issuer's January 2010 Annual Report and Accounts:
  - (i) Consolidated Balance Sheet (page 44);
  - (ii) Issuer's Balance Sheet (page 47);
  - (iii) Consolidated Income Statement (page 42) and Consolidated Statement of Comprehensive Income (page 43);
  - (iv) Accounting Policies and Notes (pages 50 – 84); and
  - (v) Auditors' Report (pages 40 – 41).

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Following the publication of this Prospectus, a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the following address: <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

## TERMS AND CONDITIONS OF THE BONDS

*The following is the text of the Terms and Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form (if issued):*

The £325,000,000 5.375 per cent. Bonds due 2021 (the **Bonds**, which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 16 and forming a single series with the Bonds) of Next plc (the **Issuer**) are constituted by a Trust Deed dated 26 May 2011 (the **Trust Deed**) made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Bonds (the **Bondholders**) and the holders of the interest coupons appertaining to the Bonds (the **Couponholders** and the **Coupons** respectively).

The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Paying Agency Agreement dated 26 May 2011 (the **Agency Agreement**) made between the Issuer, HSBC Bank plc (the **Principal Paying Agent**, which expression shall include any successor) and the other initial Paying Agents named therein (the **Paying Agents**, which expression shall include any successor(s) and, unless the context otherwise requires, the Principal Paying Agent) and the Trustee are available for inspection during normal business hours by the Bondholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Bonds are in bearer form, serially numbered, in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. No definitive Bonds will be issued with a denomination above £199,000. Bonds of one denomination may not be exchanged for Bonds of any other denomination.

#### 1.2 Title

Title to the Bonds and to the Coupons will pass by delivery.

#### 1.3 Holder Absolute Owner

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Bond or Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### 2. STATUS

The Bonds and the Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

### 3. NEGATIVE PLEDGE

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Issuer will not, and will procure that none of its Subsidiaries (as defined below) shall,

- (a) create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of the present or future business, undertaking, assets (as defined in the Trust Deed) or revenues (including any uncalled capital) of the Issuer or any of its Subsidiaries to secure payment of any Relevant Indebtedness unless the Issuer or the Subsidiary, as the case may be, in the

case of the creation of the Security Interest, before or at the same time, and, in any other case, promptly, takes any and all action necessary to ensure that:

- (i) all amounts payable by it under the Bonds, the Coupons and the Trust Deed are secured by the same Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or
  - (ii) such other Security Interest or guarantee or other arrangement (whether or not it involves the giving of a Security Interest) is provided either as the Trustee in its absolute discretion deems to be not materially less beneficial to the interests of the Bondholders or as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders; or
- (b) conduct any Securitisation other than a Permitted Securitisation.

For the purposes of these Terms and Conditions:

**Group** means the Issuer and the Subsidiaries;

**Permitted Securitisation** means any Securitisation where (i) the aggregate principal amount of all Securitisations (including the relevant Securitisation but excluding any Securitisation which is permitted under paragraph (ii) below) does not exceed £100,000,000 at any time outstanding or (ii) the Security Interest securing that Securitisation is a Permitted Security Interest;

**Permitted Security Interest** means (i) any Security Interest over or affecting the whole or part of the present or future business, undertaking, assets or revenues (including any uncalled capital) of any company which becomes a Subsidiary after 24 May 2011, where such Security Interest was created prior to the date on which such a company becomes a Subsidiary, but only if (A) such Security Interest was not created in contemplation of such company becoming a Subsidiary and (B) the amount thereby secured has not been increased in contemplation of, or since the date of, such company becoming a Subsidiary; and (ii) any Security Interest (the **Replacement Security Interest**) created in whole or in part to replace or renew or in substitution for any Security Interest created by a company referred to in (i) of this paragraph (the **Old Security Interest**) upon a refinancing or similar transaction where the Replacement Security Interest is created in respect of the same business, undertaking, assets or revenues as the Old Security Interest and where the amount secured by the Replacement Security Interest is equal to or less than the amount secured by the Old Security Interest;

**Relevant Indebtedness** means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market; and (ii) any guarantee or indemnity in respect of any such indebtedness;

**Security Interest** means any mortgage, pledge, lien, charge, assignment, hypothecation or other security interest or any other agreement or arrangement having a similar effect;

**Securitisation** means any securitisation, asset-backed financing or like arrangement, payments under or in respect of the indebtedness incurred in relation to which are secured principally by a Security Interest over or in connection with the asset or assets the subject of the securitisation, asset-backed financing or like arrangement owned by a member of the Group, or which were owned by a member of the Group immediately prior to the securitisation, asset-backed financing or like arrangement; and

**Subsidiary** means any company which is for the time being a subsidiary within the meaning of section 1159 of the Companies Act 2006.

## 4. INTEREST

### 4.1 Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from and including 26 May 2011 at the rate of 5.375 per cent. per annum, payable annually in arrear on 26 October in each year (each an **Interest Payment Date**), except that the first payment, which will be made on 26 October 2011, will be in respect of the period from and including 26 May 2011 to but excluding 26 October 2011 and will amount to £22.53 per £1,000 in principal amount of Bonds.

## **4.2 Interest Accrual**

The Bonds will cease to bear interest from and including their due date for redemption unless (i) upon due presentation, payment of the principal in respect of any Bond is improperly withheld or refused, in which event interest shall accrue on that principal amount payment of which has been so withheld or refused (both before and after any judgment or other order of a court of competent jurisdiction) at the rate aforesaid (or, if higher, the rate of interest on judgment debts for the time being provided by English law) from and including the date of such withholding or refusal up to and including the date on which, upon further presentation of the relevant Bond, payment of the full amount (including interest as aforesaid) in pounds sterling payable in respect of such Bond is made or (if earlier) the seventh day after notice is given to the relevant Bondholder (either individually or in accordance with Condition 12) that the full amount (including interest as aforesaid) in pounds sterling payable in respect of such Bond is available for payment, provided that, upon further presentation thereof being duly made, such payment is made, or (ii) default is otherwise made in respect of payment, in which event interest shall continue to accrue on the principal amount of the Bonds (both before and after any judgment or other order of a court of competent jurisdiction) at the rate aforesaid (or, if higher, the rate of interest on judgment debts for the time being provided by English law) up to and including the date which the Trustee determines to be the date on and after which payment is to be made to the Bondholders in respect thereof as stated in a notice given to the Bondholders in accordance with Condition 12 (such date to be not later than 30 days after the day on which the whole of such principal amount, together with an amount equal to the interest which has accrued and is to accrue pursuant to this sub-paragraph (ii) up to and including that date, has been received by the Trustee or the Principal Paying Agent).

## **4.3 Calculation of Broken Interest**

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following (or first) Interest Payment Date.

## **5. PAYMENTS**

### **5.1 Payments in respect of Bonds**

Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

### **5.2 Method of Payment**

Payments will be made by credit or transfer to an account in pounds sterling maintained by the payee with, or, at the option of the payee, by a cheque in pounds sterling drawn on, a bank in London.

### **5.3 Missing Unmatured Coupons**

Each Bond should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 8) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

#### **5.4 Payments subject to Applicable Laws**

Payments in respect of principal and interest on the Bonds are subject in all cases to any fiscal or other laws and regulations thereto applicable in the place of payment, but without prejudice to the provisions of Condition 7.

#### **5.5 Payment only on a Presentation Date**

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

**Presentation Date** means a day which (subject to Condition 8):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a pounds sterling account as referred to above, is a Business Day in London.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

#### **5.6 Initial Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain:

- (a) a Principal Paying Agent;
- (b) a Paying Agent having a specified office in a European Union Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (c) a Paying Agent having a specified office in London or such other place as the UK Listing Authority may approve; and
- (d) a Paying Agent having a specified office in continental Europe.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 12.

### **6. REDEMPTION AND PURCHASE**

#### **6.1 Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 26 October 2021. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

#### **6.2 Redemption for Taxation Reasons**

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (as defined in Condition 7), or any change in the application or official interpretation of the laws or regulations of the Relevant Jurisdiction, which change or amendment becomes effective after 24 May 2011, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all the Bonds, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories (as defined in the Trust Deed) of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

### 6.3 Redemption at the Option of the Holders

- (a) A **Put Event** will be deemed to occur if:
- (i) any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in Section 1159 of the Companies Act 2006, as amended) whose shareholders are substantially similar to the pre-existing shareholders of the Issuer, shall become interested (within the meaning of Part 22 of the Companies Act 2006) in (a) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer or (b) shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer (each, a **Change of Control**); and
  - (ii) at the time of the occurrence of a Change of Control, the Bonds carry from any of Moody's Investors Service Limited (**Moody's**) or Standard & Poor's Credit Market Services Europe Limited (**S&P**) or any of their respective successors, or any Substitute Rating Agency as defined in the Trust Deed, (each, a **rating agency**):
    - (A) *an investment grade credit rating (Baa3/BBB-, or equivalent, or better)*, and such rating from any rating agency is within 120 days of such time either downgraded to a non-investment grade credit rating (*Ba1/BB+, or equivalent, or worse*) or withdrawn and is not within such 120 day period subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such rating agency; or
    - (B) *a non-investment grade credit rating (Ba1/BB+, or equivalent, or worse)*, and such rating from any rating agency is within 120 days of such time downgraded by one or more notches (*for illustration, Ba1 to Ba2 being one notch*) and is not within such 120 day period subsequently upgraded to its earlier credit rating or better by such rating agency; or
    - (C) *no credit rating*, and no rating agency assigns within 90 days of such time an investment grade credit rating to the Bonds (unless the Issuer is unable to obtain such a rating within such period having used all reasonable endeavours to do so),Provided that if at the time of the occurrence of the Change of Control the Bonds carry a credit rating from more than one rating agency, at least one of which is investment grade, then sub-paragraph (A) will apply; and
  - (iii) in making the relevant decision(s) referred to above, the relevant rating agency announces publicly or confirms in writing to the Issuer or the Trustee that such decision(s) resulted, in whole or in part, from the occurrence of the Change of Control.
- (b) If a Put Event occurs, each Bondholder shall have the option to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Bond at its principal amount together with interest accrued to but excluding the date of redemption or purchase. Such option shall operate as set out below.
- (c) If a Put Event occurs then, within 21 days of the end of the 120 day period referred to in Condition 6.3(a)(ii)(A) or 6.3(a)(ii)(B) above or, as the case may be, the 90 day period referred to in Condition 6.3(a)(ii)(C) above, the Issuer shall, and upon the Trustee becoming so aware (the Issuer having failed so to do) the Trustee may, and, if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding, shall, give notice (a **Put Event Notice**) to the Bondholders in accordance with Condition 12 specifying



the nature of the Put Event and the procedure for exercising the option contained in this Condition 6.3.

- (d) To exercise the option to require the redemption or purchase of a Bond under this Condition 6.3 the Bondholder must deliver such Bond, on any Business Day (as defined in the Trust Deed) falling within the period (the **Put Period**) of 30 days after a Put Event Notice is given, at the specified office of any Paying Agent accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **Put Notice**). The Bond must be delivered to the Paying Agent together with all Coupons appertaining thereto maturing after the date (the **Put Date**) seven days after the expiration of the Put Period, failing which the provisions of Condition 5.3 shall apply. The Paying Agent to which such Bond and Put Notice are delivered will issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. The Issuer shall at its option redeem or purchase (or procure the purchase of) the relevant Bond on the Put Date unless previously redeemed or purchased and cancelled. Payment in respect of any Bond so delivered will be made, if the holder duly specified in the Put Notice a bank account to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date against presentation and surrender of such receipt at the specified office of any Paying Agent. A Put Notice, once given, shall be irrevocable.
- (e) If 80 per cent. or more in principal amount of the Bonds then outstanding have been redeemed or purchased pursuant to the provisions of this Condition 6.3, the Issuer may, on not less than 30 or more than 60 days' notice to the Bondholders given within 30 days after the Put Date, redeem, at its option, the remaining Bonds as a whole at a redemption price of the principal amount thereof plus interest accrued to but excluding the date of such redemption.
- (f) If the rating designations employed by any of Moody's or S&P are changed from those which are described in Condition 6.3(a)(ii) above, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, with the agreement of the Trustee (not to be unreasonably withheld or delayed), the rating designations of Moody's or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's or S&P and Condition 6.3(a)(ii) shall be read accordingly.

#### **6.4 Purchases**

The Issuer or any of its Subsidiaries may at any time purchase Bonds (provided that all unmatured Coupons appertaining to the Bonds are purchased with the Bonds) in the open market or otherwise and at any price.

#### **6.5 Cancellations**

All Bonds which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds, and accordingly may not be held, re-issued or resold.

#### **6.6 Notices Final**

Upon the expiry of any notice as is referred to in Condition 6.2 or 6.3 above the Issuer shall be bound to redeem the Bonds to which the notice refers in accordance with the terms of such paragraph.

### **7. TAXATION**

#### **7.1 Payment without Withholding**

All payments in respect of the Bonds by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Bond or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date.

## 7.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 12; and
- (b) **Relevant Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Bonds and Coupons.

## 7.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

## 8. PRESCRIPTION

Bonds and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 5.

## 9. EVENTS OF DEFAULT

### 9.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (**Events of Default**):

- (a) if default is made in the payment of any principal or purchase price upon due redemption or purchase pursuant to Condition 6.3 or of any interest due in respect of the Bonds or any of them and the default continues for a period of 5 days in the case of principal or purchase price or 10 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Terms and Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee

may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

- (c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Principal Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); or (ii) the Issuer or any of its Principal Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment (as extended by any originally applicable grace period); or (iii) default is made by the Issuer or any of its Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person provided that no event described in this Condition 9.1(c) shall constitute an Event of Default unless the relevant amount of Indebtedness for Borrowed Money or other relevant liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) to (iii) above, amounts to at least £15,000,000 (or its equivalent in any other currency); or
- (d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of (i) reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or (ii) in the case of a Principal Subsidiary a voluntary solvent winding up or dissolution in connection with the transfer of all or a major part of the business, undertaking and assets of such Principal Subsidiary to the Issuer, another Principal Subsidiary or any Subsidiary which becomes a Principal Subsidiary as a result of such transfer; or
- (e) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or substantially the whole of its business, save for the purposes of (i) reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or (ii) in the case of a Principal Subsidiary a voluntary solvent winding up or dissolution in connection with the transfer of all or a major part of the business, undertaking and assets of such Principal Subsidiary to the Issuer, another Principal Subsidiary or any Subsidiary which becomes a Principal Subsidiary as a result of such transfer, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (i) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order) unless initiated by the relevant company, is not discharged within 30 days, and (iii) is not for the purposes of (a) a reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Principal Subsidiary, a voluntary solvent winding up or dissolution in connection with the transfer of all or a major part of the business, undertaking and assets of such Principal Subsidiary to the Issuer, another Principal Subsidiary or any Subsidiary which becomes a Principal Subsidiary as a result of such transfer; or
- (g) if the Issuer or any of its Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or

any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors) save for the purposes of (a) a reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Principal Subsidiary, a voluntary solvent winding up or dissolution in connection with the transfer of all or a major part of the business, undertaking and assets of such Principal Subsidiary to the Issuer, another Principal Subsidiary or any Subsidiary which becomes a Principal Subsidiary as a result of such transfer; or

- (h) if any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (d) to (g) above.

PROVIDED that, in the case of any Event of Default other than those described in sub-paragraphs (a) and (in the case of a winding up or dissolution of the Issuer) (d) above, the Trustee has certified to the Issuer that the Event of Default is, in its opinion, materially prejudicial to the interests of the Bondholders.

## 9.2 Interpretation

For the purposes of this Condition:

- (a) a **Principal Subsidiary** of the Issuer at any time means a Subsidiary of the Issuer:
- (i) whose turnover attributable to the Issuer (unconsolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (unconsolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 5 per cent. of the consolidated turnover or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated by reference to the then latest audited accounts of the Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries; or
  - (ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately before the transfer is a Principal Subsidiary of the Issuer,
- all as more particularly defined in the Trust Deed; and
- (b) **Indebtedness for Borrowed Money** means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit or any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing.

## 9.3 Certificate

A certificate signed by any two Authorised Signatories (as defined in the Trust Deed) of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary of the Issuer may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest or proven error, be conclusive and binding on all parties.

## 10. ENFORCEMENT

### 10.1 Enforcement by the Trustee

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it has been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding and (b) it has been indemnified to its satisfaction.

### 10.2 Enforcement by the Bondholders

No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

## **11. REPLACEMENT OF BONDS AND COUPONS**

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

## **12. NOTICES**

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

## **13. SUBSTITUTION**

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of a Subsidiary of the Issuer, subject to:

- (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer;
- (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

## **14. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION**

### **14.1 Meetings of Bondholders**

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Terms and Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed (as more particularly described in the Trust Deed), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in principal amount of the Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in principal amount of the Bonds for the time being outstanding shall, in each case, be effective as an Extraordinary Resolution of the Bondholders. An Extraordinary Resolution passed by the Bondholders will be binding on all Bondholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

#### **14.2 Modification, Waiver, Authorisation and Determination**

The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error.

#### **14.3 Trustee to have Regard to Interests of Bondholders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

#### **14.4 Notification to the Bondholders**

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 12.

### **15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER**

#### **15.1 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

#### **15.2 Trustee Contracting with the Issuer**

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

### **16. FURTHER ISSUES**

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds or notes (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds or notes may (with the consent of the Trustee), be constituted by a deed supplemental to

the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series in certain circumstances where the Trustee so decides.

#### **17. GOVERNING LAW**

The Trust Deed, the Bonds and the Coupons, and any non-contractual obligations arising out of or in connection with the Trust Deed, the Bonds and the Coupons, are governed by, and will be construed in accordance with, English law.

#### **18. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Bond, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BONDS

*The following is a summary of the provisions to be contained in the Trust Deed to constitute the Bonds and in the Global Bonds which will apply to, and in some cases modify, the Terms and Conditions of the Bonds while the Bonds are represented by the Global Bonds.*

### 1. Exchange

The Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds only:

- (a) upon the happening of any of the events defined in the Trust Deed as Events of Default;
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Authorised Signatories of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Bond (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Bond may or, in the case of (c) above, shall surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

### 2. Payments

On and after 5 July 2011, no payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by a Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Bond by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds. Payments of interest on the Temporary Global Bond (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

### 3. Notices

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 12. Any such notice shall be deemed to have been given to the Bondholders on the second day



after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Bonds held by a Bondholder are represented by a Global Bond, notices to be given by such Bondholder may be given by such Bondholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

#### **4. Accountholders**

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders and giving notice to the Issuer) other than with respect to the payment of principal and interest on such principal amount of such Bonds, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

#### **5. Prescription**

Claims against the Issuer in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

#### **6. Cancellation**

Cancellation of any Bond represented by a Global Bond and required by the Terms and Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Bond on the relevant part of the schedule thereto.

#### **7. Put Option**

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Bondholders provided for in Condition 6.3 may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common depository for them to the Principal Paying Agent by electronic means) of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Bond to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

#### **8. Euroclear and Clearstream, Luxembourg**

References in the Global Bonds and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Bonds, amounting to at least £323,436,750 (before deduction of expenses), will be applied by the Issuer for its general corporate purposes, including the refinancing of existing debt, funding ongoing trading operations and possible future share repurchases.

## DESCRIPTION OF THE ISSUER

### Introduction

Next plc (the **Issuer**) was incorporated under the laws of England and Wales on 9 April 2002 and is the parent company of the Next Group (the **Group** or **Next**). Substantially all of the Issuer's operations are carried out through its subsidiaries. The registered office of the Issuer is at Desford Road, Enderby, Leicester LE19 4AT in the United Kingdom and its shares are listed on the London Stock Exchange. Next plc is a member of the FTSE100 and has a market capitalisation of close to £4 billion. Group turnover and profit before tax for the year to January 2011 were £3,453 million and £551 million respectively. The Issuer's telephone number is 0844 844 8888.

### Background

The Group was founded in 1864 when J Hepworth & Son (**Hepworths**) established a menswear tailors in Leeds, England. In 1981, Hepworths bought a small chain of shops and entered the Womenswear market under the name of Next. Menswear was launched in 1984 and Home interior products in 1985. In 1986 the Hepworths fascia was replaced with Next and the parent company changed its name to Next plc.

In 1987 the product range was extended into Childrenswear and in 1988 the Next Directory home shopping catalogue was launched. In 1991, the move to larger stores commenced, bringing together all four product groups and common ranges across both the retail and home shopping formats. This strategy has been continuously developed over the past two decades.

Next currently trades from over 525 stores and 6 million square feet in the UK and Eire. Next continues to develop its larger format stores and now has 55 stores over 20,000 square feet in major locations representing 25 per cent. of total space. Next's largest store is in Manchester, which opened in October 2005 and trades from over 80,000 square feet.

### Businesses

Next is primarily focussed on its own brand business which is carried out via its retail stores, its Directory home shopping operation primarily in the UK and Eire. In addition, Next has an International franchise network and has recently started developing its overseas mail order offer. These Next businesses are supported by its wholly owned product procurement business, Next Sourcing.

**Next Retail and Next Directory** home shopping divisions generate over 90 per cent. of the Group's turnover and profits and are by far the most important businesses within the Group. In the year to January 2011 their combined turnover was £3,158 million and operating profits of £551 million were achieved.

Next's strategy continues to focus on the development and expansion of its own brand product ranges. These have been made available to consumers by increasing the average size of Retail stores and including additional pages in the Next Directory. Next also offers ranges of non-Next branded clothing, electrical and other products through the Next Directory. In the coming year Next Retail will be launching a trial of a new, large store concept in Shoreham which will include new product areas including outdoor living, garden and light DIY as well as traditional mainline clothing and homewares.

The growth objective for Next Retail is to profitably expand selling space, thereby offering customers greater choice of product in far more comfortable shopping environments. The growth objective for Next Directory is to increase the number of customers using the Next Directory catalogue and website whilst increasing the breadth of offering available.

**Next International**, which reported turnover of £67 million and operating profit before tax of £6 million in the year to January 2011, now trades from over 180 stores in Europe, the Middle East and the Far East. Over the last two years, Next has been expanding its overseas online business. In January 2011 the business was trading in 38 countries with the most important being Eire, USA, Australia, Germany and Poland. In the year to January 2011 the overseas online business reported profit of £2.4 million.

**Next Sourcing** designs and sources product, for the Next Retail, Next Directory and International operations. Offices are maintained in many countries including the UK, Hong Kong, China, Sri Lanka and India. In addition, Next Sourcing owns garment manufacturing facilities in Sri Lanka and China with over 2,300 employees. In the year to January 2011, Next Sourcing reported profits of £27 million.

**Other business activities** carried on by the Group include Ventura and Lipsy. Ventura provides outsourced customer management services to its clients through four call centres in the UK and one in India.

In the year to January 2011 Ventura reported profits of £8 million on turnover of £156 million. Lipsy is a rapidly growing, young fashion brand that was acquired in September 2008 and this contributed a net profit of £1 million from sales of £45 million.

The Group's operating businesses are supported by its central management functions, including its Estates department which owns and operates the Group's freehold and leasehold assets. In addition, the Group holds investments in two associated companies, Choice (a discount retailing company which operates twenty outlets) and Cotton Traders (a fashion retailing company selling its own brand products). Together, the Group's other businesses and central management functions contributed net profits of £3 million.

**Share buybacks** have been an integral feature of the Issuer's strategy to deliver sustainable long term growth in earnings per share.

Since commencing share buybacks in 2000, the Issuer has reduced its issued share capital from 374 million shares to 181 million shares at the end of January 2011. Share buybacks are financed out of the free cash flows from the Group's operations after the capital investment needs of the business including new stores and warehouses. The Issuer continues to apply two important limitations on the quantum of share buybacks.

- development of the Group's core businesses has priority over the use of capital and share buybacks are not an alternative to capital investment; and
- strong intention to maintain investment grade credit rating.

#### **Board of Directors**

<b>Title</b>	<b>Name</b>	<b>Significant Outside Interests</b>
Chairman	John Barton	Non-executive director of WH Smith Plc, Cable and Wireless Worldwide plc and Topaz Energy and Marine plc.
Chief Executive	Lord Wolfson of Aspley Guise	–
Group Product Director	Christos Angelides	–
Group Finance Director	David Keens	–
Group Property Director	Andrew Varley	Non-executive director of Metric Property Investments plc.
Senior independent non-executive director	Jonathan Dawson	Non-executive director of National Australia Group Europe Ltd, Standard Life Investments Limited and a partner in Penfida Partners LLP.
Non-executive director	Steve Barber	Non-executive director of Helphire Group plc.
Non-executive director	Christine Cross	Non-executive director of Empire Co. Ltd (Canada), Sonae Group Ltd (Portugal), Chief Retail advisor to PricewaterhouseCoopers and a retail advisor to Apax Partners and Warburg Pincus.
Non-executive director	Francis Salway	Chief Executive of Land Securities Group plc.

The Company Secretary is Andrew McKinlay. All non-executive directors are members of the Audit, Remuneration and Nomination Committees. In addition, John Barton (Chairman) is a member of the Nomination and Remuneration Committees. The business address of each of the above persons is Desford Road, Enderby, Leicester LE19 4AT.

There are no contracts outside of the normal course of business which could result in any Group member being under an obligation which is material to the Issuer's ability to meet its obligations under the issue of the Bonds.

There are no potential conflicts of interest between the duties owed by the directors or the Company Secretary to the Issuer or other members of the Group and their private interests.

## TAXATION

**The following applies only to persons who are the beneficial owners of Bonds and Coupons and are comments of a general nature based on the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of Prospective Bondholders and Couponholders depends on their individual circumstances and may be subject to change in the future. Prospective Bondholders or Couponholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice. The description below assumes that there will be no substitution of the Issuer.**

### 1. United Kingdom Tax

#### *Payment of interest on the Bonds*

The Bonds will constitute “quoted Eurobonds” within the terms of section 987 of the Income Tax Act 2007 (the **Act**) as long as they are and continue to be listed on a “recognised stock exchange”, as defined in section 1005 of the Act. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading by the London Stock Exchange. There is no requirement to withhold or deduct for or on account of United Kingdom tax in relation to interest payments made (or in the case of collecting agents, received) in respect of quoted Eurobonds. Accordingly, provided, therefore, that the Bonds remain so listed at the time of payment of interest, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds is paid by a Company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner is a company within the charge to United Kingdom corporation tax as regards the payment of interest provided that HM Revenue and Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must be generally withheld from payments of interest on the Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary from HM Revenue and Customs in respect of such relief as may be available pursuant to the provision of any applicable double taxation treaty.

Bondholders and Couponholders may wish to note that, in certain circumstances, HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Bondholder or a Couponholder. Information so obtained may, in certain circumstances, be exchanged by HM Revenue and Customs with the tax authorities of other jurisdictions in which the Bondholder and/or Couponholder is resident for tax purposes.

#### *Further United Kingdom Income Tax Issues*

Interest on the Bonds constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch, agency or permanent establishment in connection with which the interest is received or to which the Bonds are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

Where interest has been received under deduction of United Kingdom income tax, a Bondholder who is not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Bondholders should note that the provisions relating to additional amounts referred to in Condition 7 of the Bonds (Taxation) above would not apply if HM Revenue and Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax on income. However, exemptions from, or reduction of, such United Kingdom tax liability may be available under an applicable double taxation treaty.

## **2. United Kingdom Corporation Tax Payers**

### *General Provisions in relation to Corporation Tax*

In general, Bondholders who are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

## **3. Other United Kingdom Tax Payers**

### *Taxation of Chargeable Gains*

The Bonds will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

### *Accrued Income Scheme*

On a disposal of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Bondholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable and is not subject to United Kingdom corporation tax.

## **4. Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue of Bonds or on a transfer by delivery of the Bonds.

## **5. European Union Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, Goldman Sachs International and UBS Limited (the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 24 May 2011, jointly and severally agreed to subscribe for the Bonds at the issue price of 99.894 per cent. of the principal amount of Bonds. The Issuer will pay to the Managers a combined management and underwriting commission and has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### *United States*

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the **Distribution Compliance Period**) within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Bonds during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### *United Kingdom*

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

### *General*

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

## GENERAL INFORMATION

### Authorisation

1. The issue of the Bonds was duly authorised by a resolution of a duly established Committee of the Board of Directors of the Issuer dated 19 May 2011.

### Listing

2. It is expected that listing will be granted on or about 27 May 2011, subject only to the issue of the Temporary Global Bond. Prior to the listing of the Bonds, dealings will be permitted by the London Stock Exchange in accordance with its rules.

The total expenses relating to the listing of the Bonds are approximately £7,175.

### Clearing Systems

3. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for this issue is XS0630204351 and the Common Code is 063020435.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels, and the address of Clearstream, Luxembourg is Clearstream Banking, société anonyme, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### No significant or material adverse change

4. At January 2011, the Issuer had entered into an irrevocable programme to buy back up to 1,400,000 ordinary shares for cancellation and provided £30.3 million for the maximum potential cost of these share buybacks.

In addition, the Next Employee Share Ownership Trust (the **ESOT**) had entered into two contingent purchase contracts under which the ESOT might acquire shares to service future share option exercises by Next employees. In accordance with IFRS, Next consolidated the assets and liabilities of the ESOT in its group accounts and made a provision of £15.3 million in respect of the maximum cost of acquisition of these shares.

In total, £45.6 million was deducted for these share purchases in arriving at the Group's net assets of £232.4 million at 29 January 2011.

Since the year end, the Issuer has continued to buy back shares for cancellation and as at 18 May 2011 has repurchased circa 6.8 million ordinary shares at a cost of £147.2 million, including the 1.4 million shares which were contracted at January 2011. After deducting the amount of £30.3 million provided at January 2011, the net reduction in the Group's net assets amounts to £116.9 million.

The ESOT has continued to acquire Next shares under its contingent contracts, but one contract did not reach maturity and there is a consequential release of £1 million of the year end provision which increases the Group's net assets by a similar amount. In addition, the ESOT has received over £18.4 million of cash on exercise of share options by Next employees; these proceeds also increase the Group's net assets by an equivalent value.

The ESOT has recently entered into a new contingent contract to buy up to 750,000 Next shares at a maximum cost of £16.4 million. If this contract runs to maturity, the Group's net assets would be reduced by a similar amount.

The Issuer's annual general meeting was held on 19 May 2011 at which a resolution was passed approving a final dividend of 53 pence per share in respect of the year to January 2011. As a consequence, there will be a reduction in the Group's net assets of around £90 million when this dividend is paid on 1 July 2011.

At 29 January 2011, the Issuer had entered into various foreign exchange and interest rate derivatives which had still to mature. Under IFRS, the fair value of these derivatives, totalling a net asset of £16.5 million, was included within the Group's net assets of £232.4 million.

Since that time, a number of these contracts have matured and new derivatives have been entered into by the Group. As at 30 April 2011, the net fair value of the Group's outstanding derivatives



totalled £5.0 million which, under IFRS, would represent a potential reduction in net assets of £11.5 million.

Save for the impact of the above share buybacks by the Issuer, the potential cash outflows on share purchases (net of cash received on option exercises) from the ESOT and the potential reduction in net assets resulting from the decrease in fair value of derivatives, there has been no significant change in the financial or trading position of the Issuer or the Group since 29 January 2011 and no material adverse change in the financial position or prospects of the Issuer or the Group since 29 January 2011.

### **Litigation**

5. Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

### **Accounts**

6. The auditors of the Issuer are Ernst & Young LLP, Registered Auditor, who have audited the Issuer's accounts, without qualification, in accordance with International Standards on Auditing (UK and Ireland) for the financial years ended 29 January 2011 and 30 January 2010.

The auditors of the Issuer have no material interest in the Issuer.

### **U.S. tax**

7. The Bonds and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

### **Documents**

8. Copies of the following documents will be available from the specified office of the Issuer in Leicester for a period of 12 months from the date of this Prospectus:

- (a) the Memorandum and Articles of Association of the Issuer; and
- (b) drafts of the Trust Deed and the Agency Agreement.

Copies of this Prospectus and any documents incorporated by reference in this Prospectus, including copies of the audited financial statements of the Issuer and the Group in respect of the financial years ended 29 January 2011 and 30 January 2010 (including, in each case, all notes, reports or information required by the Companies Act 2006), will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at the following address: <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

### **Yield**

9. The yield on the Bonds will be 5.393 per cent. per annum.

The yield is calculated at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.

### **Interest of natural and legal persons**

10. Save for the commission payable to the Managers (as described under "*Subscription and Sale*" above), so far as the Issuer is aware, no person involved in the issue of the Bonds has an interest material to the offer of the Bonds.

**REGISTERED OFFICE OF THE ISSUER**

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next