NEXT Holdings Limited

Reports and Financial Statements

26 January 2019

Registered No: 35161

Reports and Financial Statements

Contents

Registered in England & Wales

Desford Road
Enderby
Leicester
LE19 4AT

Strategic Report

The directors present their reports and financial statements for the 52 week period ended 26 January 2019.

Results

The profit for the 52 week period, after taxation, amounted to £750.0m (52 week period ended 27 January 2018: £782.8m).

The Company acts as an intermediate holding company, providing general management, treasury and property related services to Group companies, as well as property development activities.

	2019	*2018*
	£m	*£m*
Turnover	215.3	215.4
Gross profit	5.6	2.6

The directors consider the results to have been satisfactory and envisage continuing profitability of the Company's operations in the following year. Overall profit before tax was £758.5m (2018: £792.7m) which included £680.4m (2018: £659.5m) of dividend income from shares in Group undertakings. Next Holdings Limited is a private company limited by shares.

Risks and uncertainties

The Board has a policy of continuous identification and review of principal business risks, and oversees risk management. Directors and operational management are delegated with the task of implementing processes to ensure that risks are managed appropriately. The principal risks and uncertainties are described below along with explanations of how they are managed or mitigated:

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Business strategy development and implementation If the NEXT Board adopts the wrong business strategy or does not implement its strategies effectively, the business may suffer. The Board therefore needs to understand and properly manage strategic risk, taking into account specific retail sector risk, in order to deliver long term growth for the benefit of NEXT Holdings Limited's stakeholders.	The Board reviews business strategy on a regular basis to determine how sales and profit can be maximised, and business operations made more efficient. The Board and senior management consider strategic risk factors, wider economic and industry specific trends that affect the Group's businesses, the competitive position of its product and the financial structure of the Group.
Management team The success of NEXT Holdings Limited 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 Board considers the development of senior management to ensure there are opportunities for career development and promotion to important management positions. The Board considers and reviews the skills, diversity, experience and succession planning of the Board and senior management. This also incorporates emergency cover planning.

Strategic Report (continued)

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Financial, treasury, liquidity and credit risks The main financial risks are the availability of funds to meet business needs, default by counterparties to financial transactions, the effect of fluctuations in foreign exchange rates and interest rates, and compliance with regulation. Adequate financing facilities are required to support the operational needs of the business.	NEXT operate a centralised treasury function which is responsible for managing liquidity, interest and foreign currency risks. It operates under a Board approved Treasury policy. Approved counterparty and other limits are in place to mitigate NEXT's exposure to counterparty failure. The Group's debt position, available funding and cash flow projections are regularly monitored and reported to the Board. The Board will agree funding for the Group in advance of its requirement to mitigate exposure to illiquid market conditions.
Retail store network NEXT Holding Limited's performance depends on profitably developing the trading space of the store network. The successful development of new stores depends on a number of factors including the identification of suitable properties, obtaining planning permissions and the negotiation of acceptable lease terms. Prime retail sites will generally remain in demand, and increased competition for these can result in higher future rents.	Our predominantly leased store portfolio is actively managed by senior management, with openings, refits and closures based on strict store profitability and cash payback criteria. We will continue to invest in new space where our financial criteria are met, and will renew and refurbish our existing portfolio when appropriate. We undertake regular reviews of lease expiry and break-clauses to identify opportunities for exit or renegotiation of commitments. Leases will not be automatically renewed if acceptable terms are not agreed. The Board regularly reviews our lease commitments, new store openings and potential store closures.

By order of the Board

Seonna Anderson
Secretary

16 July 2019

Directors' Report

Dividends
Dividends of £600.0m were paid in the year (2018: £590.0m) and the directors do not recommend the payment of a final dividend.

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

Lord Wolfson of Aspley Guise
Amanda James
Jane Shields
Richard Papp (appointed 14 May 2018)
Michael Law (retired 17 May 2018)

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

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report.

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

Independent auditors
PricewaterhouseCoopers LLP expressed their willingness to continue in office and a resolution proposing their reappointment was passed at the NEXT plc 2019 AGM.

Directors' Report (continued)

Disclosure of information to the auditors

In accordance with the provisions of Section 418 of the Companies Act 2006 (the "2006 Act"), each of the persons who is a director at the date of approval of this report confirms that;

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

No donations were made for political purposes (2018: nil).

By order of the Board

Seonna Anderson
Secretary
16 July 2019

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial 52 week period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "*Reduced disclosure framework*", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Seonna Anderson

Seonna Anderson
Secretary
16 July 2019

Independent Auditors' Report

to the Members of NEXT Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, NEXT Holdings Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 26 January 2019 and of its profit for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Reports and Financial statements (the "Annual Report"), which comprise: the Balance sheet as at 26 January 2019; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 26 January 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Andrew Lyon (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
16 July 2019

Profit and Loss Account

for the 52 week period ended 26 January 2019

	Notes	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Turnover	2	215.3	215.4
Cost of sales		(209.7)	(212.8)
Gross profit		5.6	2.6
Other (losses)/gains		(44.6)	24.9
Operating (loss)/profit	3	(39.0)	27.5
Income from shares in Group undertakings	6	680.4	659.5
Interest receivable and similar income	7	118.6	106.9
Interest payable and similar expenses	7	(1.5)	(1.2)
Profit before taxation		758.5	792.7
Tax on profit	8	(8.5)	(9.9)
Profit for the financial year		750.0	782.8

All amounts relate to continuing operations.

Statement of Comprehensive Income

for the 52 week period ended 26 January 2019

	Notes	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Profit for the financial period		750.0	782.8
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains on defined benefit pension scheme	18	18.6	43.4
Tax related to items that will not be reclassified	8	(3.2)	(8.0)
Other comprehensive income for the period		15.4	35.4
Total comprehensive income for the financial period		765.4	818.2

Registered in England & Wales, no. 35161

Balance Sheet
at 26 January 2019

	Notes	26 January 2019 £m	27 January 2018 £m
Fixed assets			
Tangible assets	10	80.2	78.9
Investments	11	184.5	181.5
		264.7	260.4
Current assets			
Debtors			
Amounts falling due after more than one year	12	128.4	106.2
Amounts falling due within one year	13	1,539.2	1,156.8
Cash at bank and in hand	14	6.3	-
		1,673.9	1,263.0
Creditors: amounts falling due within one year	15	(738.7)	(484.8)
Net current assets		935.2	778.2
Total assets less current liabilities		1,199.9	1,038.6
Creditors: amounts falling due after more than one year	16	(215.4)	(218.9)
Provisions for liabilities	17	(37.8)	(38.4)
Net assets		946.7	781.3
Capital and reserves			
Called up share capital	21	1.0	29.8
Share premium account		-	3.8
Other reserves		-	14.6
Profit and loss account		945.7	733.1
Total equity		946.7	781.3

These financial statements were approved and authorised for issue by the Board of directors on 16 July 2019.

A James

Amanda James
Director

Registered in England & Wales, no. 35161

Statement of Changes in Equity
for the 52 week period ended 26 January 2019

	Share capital	*Share premium account*	*Other reserves*	*Profit and loss account*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*
At 29 January 2017	29.8	3.8	14.6	504.8	553.0
Profit for the financial period	-	-	-	782.8	782.8
Other comprehensive income for the period	-	-	-	35.4	35.4
Total comprehensive income for the period	-	-	-	818.2	818.2
Tax recognised directly in equity	-	-	-	0.1	0.1
Equity dividends paid	-	-	-	(590.0)	(590.0)
At 27 January 2018	29.8	3.8	14.6	733.1	781.3
Profit for the financial period	-	-	-	750.0	750.0
Other comprehensive income for the period	-	-	-	15.4	15.4
Total comprehensive income for the period	-	-	-	765.4	765.4
Capitalisation of reserves	788.1	-	(5.9)	(782.2)	-
Share capital reduction	(816.9)	-	-	816.9	-
Cancellation of share premium and other reserves	-	(3.8)	(8.7)	12.5	-
Equity dividends paid	-	-	-	(600.0)	(600.0)
At 26 January 2019	1.0	-	-	945.7	946.7

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS101").

The financial statements have been prepared on the historical cost basis except for certain financial instruments, pension assets and liabilities and share based payment liabilities which are measured at fair value. The financial statements are for the 52 weeks to 26 January 2019 (last year 52 weeks to 27 January 2018) and the principal accounting policies adopted are set out below.

The Company's financial statements are presented in Pounds Sterling and all values are rounded to the nearest one hundred thousand pounds except where otherwise indicated.

The financial statements contain information about NEXT Holdings Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, NEXT plc, a company registered in England and Wales.

The Company has taken advantage of the exemption under paragraph 8(h) of FRS101 not to include a cash flow statement.

The Company has taken advantage of the exemption under paragraph 8(i) of FRS101 not to disclose details of new IFRS that have been issued but are not yet effective.

The Company has taken advantage of the exemption under paragraph 8(d) of FRS101 in respect of financial instrument disclosures.

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

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment.

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

Freehold and long leasehold property	50 years
All other plant, fixtures, fittings, IT assets and vehicles	6 - 25 years
Leasehold improvements	the period of the lease, or useful life if shorter

Investments

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

Impairment

The carrying values of non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any impairment loss arises, the asset value is adjusted to its estimated recoverable amount and the difference is recognised in the Profit and Loss Account.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Trade and other debtors

Trade debtors are stated at invoice value less any allowance for impairment. Balances are written off when the probability of recovery is assessed as being remote.

Share based payments

The fair value of employee share options is calculated when they are granted using a Black-Scholes model and the fair value of equity-settled LTIP awards is calculated at grant using a Monte Carlo model. The resulting cost is charged in the Profit and Loss Account over the vesting period of the option or award, and is regularly reviewed and adjusted for the expected and actual number of options or awards vesting. The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

For cash-settled awards, the fair value of the liability is determined at each balance sheet date and the cost is recognised in the Profit and Loss Account over the vesting period.

Taxation

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is not recognised in respect of investments in subsidiaries and associates where the reversal of any taxable temporary differences can be controlled and are unlikely to reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis.

Tax provisions are recognised when there is a potential exposure under changes to international tax legislation. Management uses professional advisers and in-house tax experts to determine the amounts to be provided.

Cash at bank and in hand

This comprises cash at bank and in hand and short term deposits with an original maturity of three months or less.

Bank borrowings

Bank borrowings are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). The classification is based on two criteria:

- the Company's business model for managing the assets; and
- whether the instruments' contractual cash flows represent "Solely Payments of Principal and Interest" on the principal amount outstanding (the "SPPI criterion").

A summary of the Company's financial assets is as follows:

Financial assets	Classification under IFRS 9
Derivatives not designated as hedging instruments	Fair value through profit or loss
Derivatives designated as hedging instruments	Fair value – hedging instrument
Customer and other receivables	Amortised cost – hold to collect business model and SPPI met
Cash and short term deposits	Amortised cost

Under IFRS 9 the Company initially measures a financial asset at its fair value plus directly attributable transaction costs, unless the asset is classified as FVPL. Transactional costs of financial assets carried at FVPL are expensed in the Income Statement.

Subsequent measurement
A summary of the subsequent measurement of financial assets is set out below.

Financial assets at FVPL	Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	Subsequently measured at amortised cost using the effective interest rate (EIR) method. The amortised cost is reduced by impairment losses. Interest income, impairment or gain or loss on derecognition are recognised in profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents recovery of part of the cost of investment, in which case they are recognised in OCI. Other net gains and losses are recognised in OCI and never reclassified to profit or loss.

Derecognition
A financial asset is primarily derecognised when:
- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third-party under a "pass-through" arrangement; and either a) the Company has transferred substantially all the risks and rewards of the asset, or b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Impairment – financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. The most significant financial assets of the Company are its intercompany receivables, which are referred to as "Amounts owed by other Group undertakings". ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

Financial liabilities

Initial recognition and measurement

The Company has classified its financial liabilities as follows:

Financial liabilities	Classification under IFRS 9
Derivatives not designated as hedging instruments	Fair value through profit or loss
Derivatives designated as hedging instruments	Fair value – hedging instrument
Interest-bearing loans and borrowings:	
Corporate bonds	Amortised cost – designated in hedge relationships
Bank loans and overdrafts	Amortised cost
Trade and other payables at amortised cost	Amortised cost

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

A summary of the subsequent measurement of financial liabilities is set out below.

Financial liabilities at FVPL	Subsequently measured at fair value. Gains and losses are recognised in the Income Statement.
Loans and borrowings	Subsequently measured at amortised cost using the EIR method. The EIR amortisation is included in finance costs in the Income Statement.
Corporate bonds	Subsequently measured at amortised cost and adjusted where hedge accounting applies (see interest rate derivatives). Accrued interest is included within other creditors and accruals.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Balance Sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention and ability to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Other Financial Assets and Liabilities: Derivative Financial Instruments

Derivative financial instruments ("derivatives") are used to manage risks arising from changes in foreign exchange rates impacting the the transactions of the wider Group. In accordance with its treasury policy, the Company does not enter into derivatives for speculative purposes. Foreign exchange derivatives are stated at their fair value, being

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

the estimated amount that the Company would receive or pay to terminate them at the balance sheet date based on prevailing interest rates.

The company does not designate derivative financial instruments within hedge relationships

Foreign currencies
The financial statements are presented in Pounds Sterling, which is the Company's functional currency. Transactions in foreign currencies are recorded at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at exchange rates at the balance sheet date. Exchange differences are recognised in the Profit and Loss Account.

Turnover
Rental income arising from operating leases on property subleases is recognised on a straight-line basis over the lease term and is included in turnover in the Profit and Loss Account.

Dividend income
Dividend income is recognised with the Company's right to receive payment is established.

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

The cost of providing benefits under the defined benefit and unfunded arrangements are determined separately for each plan using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date by external actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. A net pension asset is only recognised to the extent that it is expected to be recoverable in the future through a cash refund or a reduction in future payments.

The current service cost of the defined benefit plan is recognised in the Profit and Loss Account as an employee benefit expense. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

The cost of defined contribution schemes is recognised in the Profit and Loss Account as incurred. The Company has no further payment obligations once the contributions have been paid.

Leasing commitments
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

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

Premiums payable, rent free periods, lease incentives and capital contributions receivable on entering an operating lease are released to the Profit and Loss Account on a straight line basis over the lease term.

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

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Significant areas of estimation and judgement
The preparation of the financial statements requires judgements, estimations and assumptions to be made that affect the reported values of assets, liabilities, revenues and expenses. The nature of estimation and judgement means that actual outcomes could differ from expectation. Significant areas of estimation uncertainty and judgement for the Company include:

Defined benefit pension valuation
The assumptions applied in determining the defined benefit pension obligation (Note 18), are particularly sensitive to small changes in assumptions. Advice is taken from a qualified actuary to determine appropriate assumptions at each balance sheet date. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. A sensitivity analysis is shown in Note 18. In determining the appropriate discount rate, management considers the interest rates of high quality UK corporate bonds, with extrapolated maturities corresponding to the expected duration of the obligation. The mortality rate is based on publicly available mortality tables.

Other areas of estimation and judgement include the expected future cash flows applied in measuring impairment of investments (Note 11) and vacant property provisions (Note 17). Sensitivities to the assumptions both for expected future cash flows related to investments, and for property provisions are not expected to result in a material change in the carrying amount. These provisions are reviewed regularly and updated to reflect management's latest best estimates.

New standards, amendments and IFRIC interpretations
IFRS 9 and IFRS 15 are new accounting standards that are effective for the period ended 31 January 2019; neither of these have had a material impact on the Company.

2. Turnover

	52 weeks to 26 January 2019	*52 weeks to 27 January 2018*
	£m	*£m*
Rental income	215.3	215.4

All of the above income has been generated from the United Kingdom.

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

3. Operating (loss)/profit

This is stated after charging/(crediting):

	52 weeks to 26 January 2019 *£m*	*52 weeks to 27 January 2018* *£m*
Depreciation on owned assets	0.3	0.4
Operating lease rentals:		
Minimum lease payments	205.7	207.5
Contingent rentals payable	3.8	5.1
Recharge of pension contributions to subsidiary companies	(1.6)	(3.2)
Net foreign exchange differences	(34.3)	30.1
Auditors' remuneration:		
Audit services	0.3	0.2

4. Staff costs

	52 weeks to 26 January 2019 *£m*	*52 weeks to 27 January 2018* *£m*
Wages and salaries	5.7	4.0
Social security costs	1.3	0.8
Other pension costs	0.4	0.6
	7.4	5.4
Share based payments expense		
Equity settled	1.8	1.3
Cash settled	-	(0.2)
	9.2	6.5

The monthly average number of employees during the period was 46 (2018: 49). If the number of hours worked were converted on the basis of a full working week, the equivalent average number of full-time employees would have been 43 (2018: 45).

5. Directors' emoluments

None of the directors received any remuneration for their services as directors of the Company for the year ended 26 January 2019 (2018: £nil). The directors are also directors of the ultimate parent company, NEXT plc, and their emoluments for services to the Group are disclosed in the report and accounts of that company. The directors believe that it is not practicable to apportion their remuneration between qualifying services for this company and other Group companies in which they hold office.

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

6. Income from shares in Group undertakings

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Dividends from subsidiary undertakings	680.4	659.5

7. Interest receivable and payable

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Interest from Group undertakings	118.5	105.7
Other interest receivable	0.1	1.2
Total other interest receivable and similar income	118.6	106.9
Interest payable to Group undertakings	(1.0)	(1.0)
Other interest payable	(0.5)	(0.2)
Total interest payable and similar expenses	(1.5)	(1.2)

8. Tax on profit

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Current tax:		
UK corporation and overseas tax on profits of the period	11.9	22.5
Adjustments in respect of previous years	0.2	(13.8)
Total current tax	12.1	8.7
Deferred tax:		
Origination and reversal of temporary differences	0.2	0.4
Adjustments in respect of previous years	(3.8)	0.8
Tax charge reported in the Profit and Loss Account	8.5	9.9

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

8. Tax on profit (continued)

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

	52 weeks to 26 January 2019 %	*52 weeks to 27 January 2018 %*
UK corporation tax rate	19.0	19.2
Non-taxable income net of disallowable expenses	(17.4)	(16.3)
Tax under provided in previous years	(0.5)	(1.6)
Effective total tax rate on profit before taxation	1.1	1.3

In addition to the amounts charged to the Profit and Loss Account, tax movements recognised in other comprehensive income and directly in equity were as follows:

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Deferred tax:		
Fair value movements on derivatives	-	0.6
Defined benefit pension	3.2	7.4
Tax charge in the Statement of Comprehensive Income	3.2	8.0

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Current tax:		
Share based payments	-	-
Deferred tax:		
Share based payments	-	(0.1)
Tax credit in the Statement of Changes in Equity	-	(0.1)

Deferred taxation

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Accelerated capital allowances	2.2	2.1
Revaluation of derivatives to fair value	-	-
Pension benefit obligations	21.3	18.1
Share based payments	(0.1)	(0.1)
Other temporary differences	4.2	7.9
	27.6	28.0

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

8. Tax on profit (continued)

The movement in deferred tax in the year is as follows:

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Opening position	28.0	18.9
Charged/(credited) to the Profit and Loss Account		
Accelerated capital allowances		0.1
Pension benefit obligations	-	-
Other temporary differences	(3.6)	1.1
Recognised in the Statement of Comprehensive Income	3.2	8.0
Recognised in the Statement of Changes in Equity	-	(0.1)
Closing position	27.6	28.0

9. Dividends

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Equity dividends of £60.00 (2018: £1.98) per share	600.0	590.0

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

10. Tangible assets

	Freehold property £m	*Leasehold property £m*	*Plant, fixtures, fittings, IT assets and vehicles £m*	*Total £m*
Cost:				
At 28 January 2018	78.4	10.4	4.3	93.1
Additions	1.4	-	0.2	1.6
Disposals	-	(0.2)	-	(0.2)
At 26 January 2019	79.8	10.2	4.5	94.5
Accumulated depreciation:				
At 28 January 2018	8.1	2.6	3.5	14.2
Provided during the year	0.2	-	0.1	0.3
Disposals	-	(0.2)	-	(0.2)
At 26 January 2019	8.3	2.4	3.6	14.3
Carrying amount:				
At 26 January 2019	71.5	7.8	0.9	80.2
At 27 January 2018	70.3	7.8	0.8	78.9

11. Investments

	Subsidiary undertakings £m	*Associate and joint venture undertakings £m*	*Other investments £m*	*Total £m*
Cost:				
At 28 January 2018	185.5	0.3	1.0	186.8
Additions	-	3.0	-	3.0
At 26 January 2019	185.5	3.3	1.0	189.8
Provisions:				
At 26 January 2019 and 27 January 2018	(5.1)	(0.2)	-	(5.3)
Carrying amount:				
At 27 January 2018	180.4	0.1	1.0	181.5
At 26 January 2019	180.4	3.1	1.0	184.5

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

11. Investments (continued)

A full list of the Company's related undertakings is contained in the table below. Indirect holdings are suffixed with an asterisk. Note that the Company has a direct holding of 50% of the share capital of Next Manufacturing (Pvt) Limited.

Company name	Registered office address	% held
AgraTech Limited	Glen House, 200-208 Tottenham Court Road, London, W1T 7PL	100
Belvoir Insurance Company Limited*	Maison Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey	100
Brecon Debt Recovery Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Cairns Limited*	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Callscan, Inc.*	McSwiney, Semple, Hankin-Birke & Wood PC, PO Box 2450, 280 Main Street, New London, NH 03257, USA	100
Choice Discount Stores Limited	14-14A Rectory Road, Hadleigh Benfleet, Essex, SS7 2ND, United Kingdom	49
Custom Gateway Limited	c/o Sedulo, 62-66 Deansgate, Manchester, M3 2EN	30
Lipsy Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
LLC Next*	7 Dolgorukovskaya Street, 127006, Moscow, Russian Federation	100
Next (Asia) Limited*	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Next Sourcing Limited Shanghai Office*	9F, Building 1, Highstreet loft, No.508 Jiashan Road, Shanghai	100
Next AV s.r.o.	Pribinova 8, 811 09, Bratislava, Slovakia	100
Next Brand Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Distribution Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Financial Services Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Germany GmbH*	Landsberger Stra. 155, 80687 München	100
Next Group Plc*	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Holding Wholesale Private Limited	Level 2 Raheja, Centre Point, 294 CST Road Near, Mumbai University, Santacruz, East Mumbai, Mumbai City, MH 400098 India	100
Next Manufacturing (Pvt) Limited	Phase 1, Ring Road, 2,E.P.Z, Katunayake, Sri Lanka	100
Next Manufacturing Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Near East Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Pension Trustees Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next PK s.r.o.	Rohanské nábreží 671/15, Karlín, Prague 8, 186 00, Czech Republic	100
Next Procurement (Private) Limited*	House No.680, Safari Villas, Sector B Bahria Town, Lahore, Pakistan	100
Next Properties Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Retail Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Retail (Ireland) Limited	13-18 City Quay, Dublin 2, D02 ED70, Ireland	100
Next Sourcing Company Limited*	2nd Floor S.I. Building, No. 93 Preash Sihanouk Blvd, Sangkat Chaktomuk, Khan Daun Penh, Phnom Penh, Cambodia	100
Next Sourcing (UK) Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Sourcing Limited*	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Next Sourcing Limited Domestic and/or Foreign Trade Limited Liability Company*	Kemankes Karamustafapasa Mahallesi Tophane iskele Cad. No: 12/5 Beyoglu, Istanbul, Turkey	100
Next Sourcing Services (India) Private Limited*	207 Jaina Tower, 1 District Centre, Janakpuri, New Delhi, 110058, India	100
Next Sourcing VM Limited*	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Next Sweden AB*	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Next Commercial Trading (Shanghai) Co Limited*	Room 301, Building No.4, No.58 Ruixing Lu, Shanghai FTC, PRC, 201306	100
NSL Limited*	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Perimeter Technology Inc.*	McSwiney, Semple, Hankin-Birke & Wood PC, PO Box 2450, 280 Main Street, New London, NH 03257, USA	100
Retail Restaurants Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	50
The Next Directory Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
The Paige Group Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Ventura Group Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100
Ventura Network Distribution Limited	Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom	100

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

12. Debtors: amounts falling due after more than one year

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Defined benefit surplus	125.0	106.2
Amounts owed by other Group undertakings	3.4	-
	128.4	106.2

More details on the defined benefit surplus of £125.0m (2018: £106.2m) can be found at Note 18.

Amounts owed by Group undertakings are repayable on demand and do not bear interest.

13. Debtors: amounts falling due within one year

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Trade and customer debtors	6.3	2.8
Amounts owed by other Group undertakings	1,397.4	947.8
Corporation tax receivable	36.3	28.9
Other debtors	12.3	11.3
Derivative financial instruments	20.9	97.7
Prepayments and accrued income	66.0	68.3
	1,539.2	1,156.8

Amounts owed by Group undertakings are repayable on demand and include interest-bearing loans which attract interest at both fixed and floating rates.

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

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

Ageing of trade debtors:

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Not past due	6.2	2.8
0 – 30 days past due	-	-
31 – 60 days past due	0.1	-
	6.3	2.8

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

14. Cash at bank and in hand

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Cash at bank and in hand	6.3	-

Cash at bank earns interest at floating rates based on daily bank deposit rates.

15. Creditors: amounts falling due within one year

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Bank loans and overdrafts	8.8	23.0
Trade creditors	13.7	12.6
Amounts owed to parent undertaking	400.0	77.1
Amounts owed to other Group undertakings	228.8	237.2
Other taxation and social security	1.1	0.9
Property lease incentives received	34.7	32.6
Derivative financial instruments	20.7	71.5
Accruals and deferred income	30.9	29.9
	738.7	484.8

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

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

Amounts owed to other Group undertakings include interest-bearing loans which attract interest at both fixed and floating rates.

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

16. Creditors: amounts falling due after more than one year

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Property lease incentives received	214.0	218.1
Other liabilities	1.4	0.8
	215.4	218.9

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

17. Provisions for liabilities

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Provision for vacant property costs	10.2	10.4
Provision for deferred tax	27.6	28.0
	37.8	38.4

	Vacant property costs £m
At 28 January 2018	10.4
Provisions made in the period	6.4
Utilisation of provisions	(4.1)
Release of provisions	(2.9)
Unwind of discount	0.4
At 26 January 2019	10.2

Provision is made for the costs of future rentals or estimated exit costs of leases of unoccupied property to which the Company is committed. The average remaining lease term is 8 years (2018: 8 years).

A breakdown of the movement in the deferred tax provision is shown in Note 8.

18. Pension benefits

The Company operates three pension arrangements in the UK on behalf of the NEXT Group: the Next Group Pension Plan (the "Original Plan"), the 2013 Next Group Pension Plan (the "2013 Plan") and the Next Supplementary Pension Arrangement (the "SPA").

The Group's UK pension arrangements include defined benefit and defined contribution sections. The Original Plan and 2013 Plan are established under trust law and comply with all relevant UK legislation. Pension assets are held in separate trustee administered funds which have equal pension rights with respect to members of either sex in so far as this is required by current legislation. The defined benefit section was closed to new members in 2000 and over recent years the Group has taken steps to manage the ongoing risks associated with its defined benefit liabilities.

The Group also provides additional retirement benefits through the SPA to some plan members whose benefits would otherwise be affected by the lifetime allowance.

The Original Plan comprises predominantly members with pensions in payment, following the transfer of active and deferred members (and associated liabilities) to the 2013 Plan. The risks associated with the payment of pensions of the Original Plan have been largely mitigated by the purchase of two insurance contracts ("buy-ins") with Aviva in 2010 and 2012 to cover the liabilities of this Plan, although it remains the ultimate responsibility of the Company to provide members with benefits. The pensions and matching insurance contracts held by the Original Plan are being converted to buy-out and the Original Plan will then be dissolved.

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

18. Pension benefits (continued)

The 2013 Plan was established in 2013 via the transfer of liabilities and assets from the Original Plan. This arrangement provides benefits to the majority of members whose pensions were not insured with Aviva. From November 2012, the future accrual of benefits for remaining active employee members has been based on pensionable earnings frozen at that time, rather than final earnings.

Principal risks

The following table summarises the principal risks associated with the Group's defined benefit arrangements:

Investment risk	The present value of defined benefit liabilities is calculated using a discount rate set by reference to high quality corporate bond yields. If plan assets underperform corporate bonds, this will create a deficit. Investment risk in the Original Plan is negligible, as almost all liabilities in this plan are covered by the insurance contracts.
Interest rate risk	A fall in corporate bond yields would increase the value of the liabilities. This would be only partially offset by an increase in the value of bond investments held.
Inflation risk	Pensions in payment are increased annually in line with RPI or CPI for Guaranteed Minimum Pensions built up since 1988. Pensions built up since 2005 are capped at 2.5% and pensions built up between 1997 and 2005 are capped at 5%. When discretionary increases have been awarded for pensions built up before 1997, they too have tended to reflect RPI, capped at 2.5%. Therefore an increase in inflation would increase the value of pension liabilities. The assets would be expected to also increase, to the extent that they are linked to inflation, but this would not be expected to fully match the increase in liabilities.
Longevity risk	The present value of the defined benefit liabilities is calculated having regards to a best estimate of the mortality of plan members. If members live longer than this mortality assumption, this will increase the liabilities.

The buy-in insurance contracts represent over 99% of the Original Plan pension liabilities and 28% of the total pension liabilities. This partially offsets the total risks described above. Derivatives are not used to hedge any of the risks noted above.

Profit and Loss Account

The components of the net defined benefit expense recognised in the Profit and Loss Account are as follows:

	2019				*2018*			
	2013 Plan £m	*Original Plan £m*	*SPA £m*	*Total £m*	*2013 Plan £m*	*Original Plan £m*	*SPA £m*	*Total £m*
Current service cost	7.8	-	0.4	8.2	8.3	-	0.4	8.7
GMP equalisation	0.4	-	-	0.4	-	-	-	-
Net interest (income)/expense	(3.1)	(0.1)	0.4	(2.8)	(2.2)	-	0.5	(1.7)
Administration costs	1.8	0.1	-	1.9	1.4	0.1	-	1.5
Net defined benefit expense	6.9	-	0.8	7.7	7.5	0.1	0.9	8.5

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

18. Pension benefits (continued)

Other comprehensive income

The components of the net defined benefit expense recognised in other comprehensive income are as follows:

	2019				*2018*			
	2013 Plan £m	*Original Plan £m*	*SPA £m*	*Total £m*	*2013 Plan £m*	*Original Plan £m*	*SPA £m*	*Total £m*
Actuarial gains/(losses) due to liability experience	-	2.5	0.3	2.8	4.4	(0.2)	0.4	4.6
Actuarial gains/(losses) due to liability assumption changes	56.0	4.8	1.0	61.8	(15.4)	(1.7)	(0.2)	(17.3)
	56.0	7.3	1.3	64.6	(11.0)	(1.9)	0.2	(12.7)
Return on plan assets (less than)/greater than discount rate	(38.7)	(7.3)	-	(46.0)	54.1	2.0	-	56.1
Actuarial gains recognised in other comprehensive income	17.3	-	1.3	18.6	43.1	0.1	0.2	43.4

Balance sheet valuation

The net defined benefit pension asset recognised in the balance sheet is analysed as follows:

	2019				*2018*			
	2013 Plan £m	*Original Plan £m*	*SPA £m*	*Total £m*	*2013 Plan £m*	*Original Plan £m*	*SPA £m*	*Total £m*
Present value of benefit obligations	(617.8)	(134.5)	(16.4)	(768.7)	(667.3)	(146.0)	(17.0)	(830.3)
Fair value of plan assets	757.2	136.5	-	893.7	788.5	148.0	-	936.5
Net pension asset/(liability)	139.4	2.0	(16.4)	125.0	121.2	2.0	(17.0)	106.2

A net asset has been recognised as the Trust Deeds of the Original and 2013 Plans provide the Group with an unconditional right to a refund assuming the gradual settlement of the Plans' liabilities over time until all members have left the Plans.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

18. Pension benefits (continued)

Plan obligations

Changes in the present value of defined benefit pension obligations are analysed as follows:

	2019				2018			
	2013 Plan £m	*Original Plan £m*	*SPA £m*	*Total £m*	*2013 Plan £m*	*Original Plan £m*	*SPA £m*	*Total £m*
Opening obligation	667.3	146.0	17.0	830.3	646.6	148.0	16.3	810.9
Current service cost	7.8	-	0.4	8.2	8.3	-	0.4	8.7
GMP equalisation	0.4	-	-	0.4	-	-	-	-
Interest cost	16.5	3.4	0.4	20.3	17.9	3.8	0.5	22.2
Employee contributions	0.1	-	-	0.1	0.1	-	-	0.1
Benefits paid	(18.3)	(7.6)	(0)	(25.9)	(16.6)	(7.7)	-	(24.3)
Transfers between plans					-	-	-	-
Actuarial losses/(gains)								
- financial assumptions	(62.6)	(3.8)	(1.3)	(67.7)	32.5	3.9	(0.4)	36.0
- experience	-	(2.5)	(0.3)	(2.8)	(4.4)	0.2	(0.4)	(4.6)
- demographic assumptions	6.6	(1.0)	0.3	5.9	(17.1)	(2.2)	0.6	(18.7)
Closing obligation	617.8	134.5	16.4	768.7	667.3	146.0	17.0	830.3

The present value of the defined benefit closing obligation of £768.7m was comprised of approximately 29% relating to active participants, 46% relating to deferred participants and 25% relating to pensioners.

Plan assets

Changes in the fair value of defined benefit pension assets were as follows:

	2019				2018			
	2013 Plan £m	*Original Plan £m*	*SPA £m*	*Total £m*	*2013 Plan £m*	*Original Plan £m*	*SPA £m*	*Total £m*
Opening assets	788.5	148.0	-	936.5	723.8	150.0	-	873.8
Employer contributions	7.8	-	-	7.8	8.4	-	-	8.4
Employee contributions	0.1	-	-	0.1	0.1	-	-	0.1
Benefits paid	(18.3)	(7.6)	-	(25.9)	(16.6)	(7.7)	-	(24.3)
Transfers between plans					-	-	-	-
Interest income on assets	19.6	3.5	-	23.1	20.1	3.8	-	23.9
Return on plan assets (excluding amounts included in interest)	(38.7)	(7.3)	-	(46.0)	54.1	2.0	-	56.1
Administrative costs	(1.8)	(0.1)	-	(1.9)	(1.4)	(0.1)	-	(1.5)
Closing assets	757.2	136.5	-	893.7	788.5	148.0	-	936.5

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

18. Pension benefits (continued)

The fair value of plan assets was as follows:

	2019 2013 Plan £m	Original Plan £m	Total £m	%	*2018* 2013 Plan £m	Original Plan £m	Total £m	%
Equities	183.5	-	183.5	20.6	369.4	-	369.4	39.4
Equity-linked bonds	54.4	-	54.4	6.1	62.6	-	62.6	6.7
Bonds	98.5	-	98.5	11.0	102.4	-	102.4	10.9
Gilts	231.5	2.2	233.7	26.1	187.8	2.2	190.0	20.3
Property	102.3	-	102.3	11.4	56.0	-	56.0	6.0
Insurance contracts	79.2	134.3	213.5	23.9	-	145.8	145.8	15.6
Cash and cash equivalents	7.8	-	7.8	0.9	10.3	-	10.3	1.1
	757.2	136.5	893.7	100.0	788.5	148.0	936.5	100.0

None of the pension arrangements directly invest in any of the Group's own financial instruments nor any property occupied by, or other assets used by, the Group. The fair values of the above equity and debt instruments are determined based on quoted prices in active markets. The property assets relate to investments in property funds and their fair value is based on quoted prices in active markets. The majority of the benefits within the Original Plan are covered by two insurance contracts with Aviva. The insurance assets have been valued so as to match the defined benefit obligations, the value of which was calculated by Aviva.

Principal assumptions

The IAS 19 (accounting) valuation of the defined benefit obligation was undertaken by an external qualified actuary as at January 2018 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

	2019 Original Plan	2013 and SPA	*2018* Original Plan	2013 and SPA
Discount rate	2.70%	2.90%	2.40%	2.50%
Inflation – RPI	3.40%	3.15%	3.45%	3.20%
Inflation – CPI	2.40%	2.15%	2.45%	2.20%
Salary increases			-	-
Pension increases in payment				
RPI with a maximum of 5.0%	3.20%	2.95%	3.15%	3.00%
RPI with a maximum of 2.5% and discretionary increases	2.20%	2.05%	2.05%	1.95%

	2019 Pensioner aged 65	Non-pensioner aged 45	*2018* Pensioner aged 65	Non-pensioner aged 45
Life expectancy at age 65 (years)				
Male	22.6	24.4	22.7	24.5
Female	24.8	26.6	25.0	26.7

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18. Pension benefits (continued)

The discount rate has been derived as the single average discount rate appropriate to the term of the liabilities, based on the yields available on high-quality Sterling corporate bonds. The expected average duration of the Original Plan's liabilities is 13 years and for the SPA and 2013 Plans it is 26 years.

The rate of retail price inflation (RPI) has been derived in a consistent way to the discount rate, so that it is appropriate to the term of the liabilities. As in previous years, the RPI assumption for the 2013 and SPA allow for the inflation risk premium of 0.2% per annum whereas that for the Original Plan does not, because its assets and liabilities are almost fully matched.

The rate of consumer price inflation (CPI) is set at 1.0% lower than the assumption for retail price inflation, reflecting the long term expected gap between the two indices.

For the 2013 Plan and the SPA, the base mortality assumptions reflect the best estimate output from a postcode mortality study. This results in an assumption in line with the standard SAPS Series 2 All Pensioner tables (with a multiplier of 95% for males and 92% for females). Future improvement trends have been allowed for in line with the most recent CMI core projection model (CMI 2017) with a long term trend towards 1.5% per annum.

The base mortality assumption for the Original Plan is in line with the standard SAPS Series 1 All Pensioner tables, with medium cohort improvements to 2009 and CMI 2013 improvements applied from 2009 with a long term trend towards 1.5% per annum.

Sensitivity analysis

The sensitivity of the net pension asset to changes in the principal assumptions is:

	Sensitivity analysis	*Impact on net pension asset as at 26 January 2019*
Discount rate	0.5% decrease	£71m decrease
Price inflation	0.5% increase to RPI and CPI	£59m decrease
Price inflation	0.1% decrease to CPI (i.e. increase in the gap between RPI and CPI)	£3m increase
Mortality	Life expectancy increased by one year	£13m decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. Aside from the matching insurance contracts held in the Original Plan, no allowance has been made for any change in assets that might arise under any of the scenarios set out above. When calculating the sensitivity of the defined benefit obligation to changes in the significant assumptions, the same method has been applied as when calculating the pension liability recognised within the Consolidated Balance Sheet. The inflation assumption impacts the 'pension increases in payment' and deferred pension calculations.

The sensitivities shown are just one possible outcome and should not be taken as an indication of the likelihood of a change occurring in the future. Economic markets have been particularly volatile in recent months and market metrics used to derive the discount rate and price inflation assumptions could increase or decrease in the future, by more or less than the change set out.

Notes to the Financial Statements
for the 52 week period ended 26 January 2019

18. Pension benefits (continued)

Full actuarial valuation

The latest full actuarial valuation of the 2013 Plan was undertaken as at 30 September 2016 by Willis Towers Watson who acted as Actuary to the Trustees until April 2018. From May 2018, Mercer now acts as Actuary to the Trustee. The valuation showed a funding deficit on the Technical Provisions basis required by legislation of £70.2m at that date.

The Group has agreed a recovery plan to meet the funding deficit, which is intended to restore the Plan assets to a fully funded position on a Technical Provisions basis by 30 September 2021. Under that agreement, the Group will contribute five annual payments of up to £14.0m by 31 January each year. The first payment of £14.0m under this agreement was made in January 2017 and future contributions will only be required to be paid to the extent that there is a funding deficit at the preceding 31 December.

At 31 December 2018 the 2013 Plan was estimated to be fully funded on a Technical Provisions basis with a surplus in the region of £17m, therefore a deficit contribution was not payable in January 2019.

With effect from January 2018, the Company also agreed to pay contributions of 31.3% per annum of members' frozen pensionable salaries as at 31 October 2012 towards the future accrual of benefits for active members, an increase from 17.5% per annum.

Contributions

Members of the defined benefit section of the 2013 Plan contribute 3% or 5% of pensionable earnings; employer contributions are 31.3% per annum. Members of the defined contribution section contribute 3% or 5% of pensionable earnings which is matched by the Group.

Contributions paid by the Group are set out below:

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Defined contribution – recognised as an expense	14.3	11.6
Automatic enrolment – recognised as an expense	7.2	1.8
Defined benefit	7.7	8.4
	29.2	21.8

Employer contributions to the defined benefit section in the year ahead are expected to be around £21m assuming a contribution of £14m is paid in January 2020, although in practice this is contingent on there being a deficit on a funding (Technical Provisions) basis at this time (refer to details in Full actuarial valuation section above). Employer contributions for the defined contribution scheme are expected to be circa £13m (including salary sacrifice contributions) for the year ahead. Employer contributions for the automatic enrolment scheme are expected to be around £12m, including salary sacrifice contributions.

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19. Commitments under operating leases

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

	52 weeks to 26 January 2019 £m	*52 weeks to 27 January 2018 £m*
Within one year	233.8	231.0
After one year but not more than five years	700.5	763.3
More than five years	722.8	824.1
	1,657.1	1,818.4

At the balance sheet date, total future payments expected to be received under non-cancellable subleases were £18.6m (2018: £12.6m).

The Company has entered into operating leases in respect of vehicles, equipment, warehouses, office equipment and retail stores. These non-cancellable leases have remaining terms of between one month and approximately 25 years. Contingent rentals are payable on certain retail store leases based on store revenues. The majority of the Company's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

20. Contingent liability

The Company has entered into cross guarantee arrangements with Barclays Bank plc and HSBC Bank plc in respect of bank set-off arrangements with its parent undertaking NEXT plc, and certain fellow subsidiary undertakings. The guarantees are limited to the credit balances held on the Company's bank accounts.

The Company has also provided a guarantee in favour of Next Pension Trustees Limited, guaranteeing jointly and severally with NEXT Retail Limited all present and future obligations and liabilities of NEXT Distribution Limited and NEXT plc to the NEXT Group Pension Plan, up to a maximum amount of £120 million.

21. Called up share capital

				Authorised
	No. '000	*2019 £m*	*No. '000*	*2018 £m*
Ordinary shares of 10p each	10,000	1.0	545,000	54.5

				Allotted, called up and fully paid
	No. '000	*2019 £m*	*No. '000*	*2018 £m*
Ordinary shares of 10p each	10,000	1.0	298,101	29.8

On 19 July 2018 7,881,079,929 ordinary shares were issued following the capitalisation of £788,107,992.90 of reserves comprising £782,189,742.88 Profit and Loss reserves and £5,918,250.02 Other Reserves.

On 23 July 2018 8,169,180,845 ordinary shares were cancelled and the reserve thereby created was treated as realisable profit

All shares rank pari passu in all respects.

Notes to the Financial Statements
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22. Equity settled share based payments

Management and Sharesave options
Employees of the Company participate in management and Sharesave option schemes offered by NEXT plc in its shares. Management share options are granted annually at the prevailing market price at the time of grant and are exercisable between three and ten years following their grant. The Sharesave option scheme operates on a Save-As-You-Earn principle, and offers options at a discount of 20% to the prevailing market rate at the time of grant, exercisable three or five years after the date of grant.

Management and Sharesave options were exercised on a regular basis throughout the year and the weighted average share price during this period was £53.95 (2018: £44.24). Options outstanding at 26 January 2019 are exercisable at prices ranging between £13.99 and £70.80 (2018: £10.81 and £70.80) and have a weighted average remaining contractual life of 5.9 years (2018: 6.0 years), further analysed in the table below.

	52 weeks to 26 January 2019		*52 weeks to 26 January 2018*	
	No. of options outstanding	*Weighted average remaining contractual life (years)*	*No. of options outstanding*	*Weighted average remaining contractual life (years)*
Exercise price range				
£10.81 – £38.25	10,894	1.9	14,389	2.8
£41.09	17,963	8.2	24,109	9.2
£41.12 – £43.48	5,810	3.5	8,789	4.3
£48.38	17,510	9.2	0	0
£54.10 – £59.76	11,347	6.6	15,965	6.9
£66.95 – £70.80	11,589	5.7	14,893	6.7
Outstanding at end of period	75,113	5.9	78,145	6.0

SMP options
A Share Matching Plan (SMP) is an equity-settled scheme offered to senior executives. SMP participants who invest a proportion of any annual cash bonus in NEXT plc shares can receive up to a maximum of two times the original number of shares they purchase with their bonus. Any matching is conditional upon achieving performance measures over the following three years.

The weighted average remaining contractual life of these options is 5.4 years (2018: 5.8 years). During the year ended 26 January 2019 no SMP options were exercised. During the year ended 27 January 2018 SMP options were exercised at different times in the year and the weighted average share price during this period was £43.12.

Equity-settled LTIP awards
The equity-settled LTIP awards are to incentivise management to deliver superior total shareholder returns (TSR) over three year performance periods relative to a selected group of retail companies, and align the interests of executives and shareholders. A Long Term Incentive Plan (LTIP) is offered to directors and senior executives who may receive conditional awards of shares dependent on a three year service condition, a total shareholder return condition and consideration of a general economic underpin test.

From January 2014 onwards, new LTIP grants to executive directors are settled in shares with no cash-settlement alternative. Awards to other senior executives were generally cash-settled until March 2017, since that date they are settled in shares. As a result, all LTIP awards are now accounted for under IFRS 2 as equity-settled.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

22. Equity settled share based payments (continued)

The weighted average remaining contractual life of these options is 1.5 years (2018: 1.6 years).

The fair value of management, Sharesave and SMP options granted is calculated at the date of grants using a Black-Scholes option pricing model, whilst the LTIP uses a Monte Carlo valuation model. Further details of all of these schemes are provided in the consolidated financial statements of NEXT Plc.

23. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries. During the year the Company entered into transactions in the ordinary course of business with other related parties as follows:

Transactions with associate undertaking, Choice Discount Stores Limited:	*52 weeks to 26 January 2019 £m*	*52 weeks to 27 January 2018 £m*
Management recharge	0.4	1.0

Transactions with joint venture undertaking, Retail Restaurants Limited:	*52 weeks to 26 January 2019 £m*	*52 weeks to 27 January 2018 £m*
Loan receivable	0.7	1.5
Recharges of costs	0.4	0.6
Interest charges	0.1	-
	1.2	2.1

The loan outstanding at the year end of £2.3m earns interest at a commercial arms-length rate.

24. Ultimate parent company and controlling party

The Company's immediate parent company is Next Group Plc (formerly Next Group Limited); its ultimate parent company and controlling party is NEXT plc. Both companies are registered in England & Wales. NEXT plc is the only group preparing financial statements which include NEXT Holdings Limited. Copies of its Group financial statements are available from its Company Secretary at its registered office, Desford Road, Enderby, Leicester, LE19 4AT.