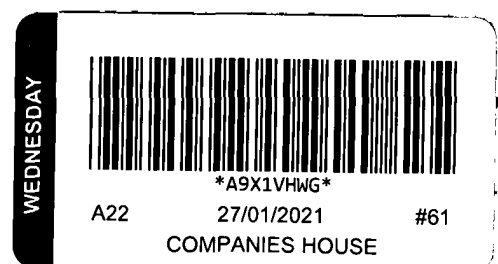


NEXT Holdings Limited

Reports and Financial Statements

25 January 2020

Registered No: 00035161



Reports and Financial Statements

| Contents | Page |
|---------------------------------------|-------------|
| Strategic Report | 1 |
| Directors' Report | 6 |
| Directors' Responsibilities Statement | 8 |
| Independent Auditors' Report | 9 |
| Profit and Loss Account | 12 |
| Statement of Comprehensive Income | 12 |
| Balance Sheet | 13 |
| Statement of Changes in Equity | 14 |
| Notes to the Financial Statements | 15 |

Registered in England & Wales

Next Plc
Desford Road
Enderby
Leicester
LE19 4AT

Strategic Report

The directors present their reports and audited financial statements for the period ended 25 January 2020.

Results

The profit for the period ended 25 January 2020, after taxation, amounted to £95.6m (period ended 26 January 2019: £758.2m).

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

Key Performance Indicators

The directors use a number of key performance indicators to assess the business performance. Principal amongst these are turnover, gross profit and net assets which are reported in the audited financial statements.

| | 2020 | 2019 |
|--------------|-------|-------------|
| | £m | £m Restated |
| Turnover | 211.4 | 215.3 |
| Gross profit | 84.2 | 83.5 |
| Net assets | 856.7 | 757.9 |

In the period ended 25 January 2020 the Company adopted IFRS 16 Leases; this process included the restatement of prior year numbers including Gross profit and Net assets in the table above. For further information please see Notes 1 and 25.

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 £122.1m (2019: £768.6m) which included £0.8m (2019: £680.4m) of dividend income from shares in Group undertakings. NEXT Holdings Limited is a private company limited by shares.

Section 172 Statement

This section describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) Companies Act 2006 in exercising their duty to promote the success of the Company for the benefit of its member, Next Group plc. In November 2018 the directors received training from external counsel to remind them of their duties and put the Board in a position where it could purposefully apply section 172 throughout the 2019/20 financial year.

The Company is a wholly owned subsidiary of Next Group Plc. Its purpose is to provide general management and property related services to the wider Next Group. Therefore the Company considers that, indirectly, its key stakeholders reflect those of Next plc. The Company's turnover is almost entirely intercompany and it has no external debt funding. It therefore considers its relationships with its workforce and suppliers to be of direct relevance and long term importance to its long term success.

Relationship and engagement with stakeholders

Workforce

The strength of our business is built on the hard work and dedication of all of the Company's people. We also consider the interests of former employees who are members of a group pension scheme. Our colleagues rely on us to provide stable employment and opportunities to realise their potential in a working environment where they can be at their best.

The Next Plc Board takes active steps to ensure that the suggestions, views and interests of the workforce are captured and considered in our decision-making. The Company benefits from having a Chief Executive and three other executive directors who have served with the Company as employees and, latterly, as directors over a period of 20 to 30 years. They all therefore perform a high degree of personal oversight and engagement in the Company's affairs. This knowledge of the business and active style of

Strategic Report (continued)

engagement means our executive directors maintain an exceptionally acute insight into the mood, culture and views of the workforce, which they are then able to report on to the wider Next Plc Board.

Employee engagement

There are a number of effective workforce engagement mechanisms in place across the Company:

- Employees are kept informed of performance and strategy through regular presentations and updates from members of the Next Plc Board.
- The executive directors attend key business meetings throughout the year, including weekly trading and capex meetings, monthly international sales meetings, and presenting financial results to Head Office employees.
- Employee engagement surveys are undertaken covering the vast majority of the workforce, and the results are reported to the Next Plc Board.
- The Chairman and other non-executive directors of the Next Plc Board attend meetings with employees, including:
 - Product Training Days and visits to stores and warehouses as a Board as well as individual director visits; and
 - the attendance by a Next Plc Board non-executive director, alongside the Chief Executive and the Group HR Director, at meetings of the Group's Workforce Focus Forums with workforce representatives (these are workforce advisory panels as referred to in the Corporate Governance Code). This allows effective engagement and open discussion on the key business issues, policies and the working environment in different parts of the business, with actions agreed on issues raised.
- During the year a new online tool was put in place to facilitate ongoing, meaningful performance and development conversations between managers and teams. The tool also provides a forum for positive and constructive feedback by individuals, peers and managers. The Group HR Director attends certain meetings of the Next Plc Board to brief on employee-related matters, including workforce demographics, engagement activities, the results of employee opinion surveys, staff retention rates, diversity, numbers and nature of whistleblowing, disciplinary and grievance procedures, learning and development activity, pay and reward including gender pay gap and HR initiatives.

The Next Plc Board considers that, taken together, these arrangements deliver an effective means of ensuring the Next Plc Board stays alert to the views of the workforce. With regard to health, safety and wellbeing, during the year the Audit Committee received an update from the Group Health and Safety Manager including on safety performance, safety risk management and mental health wellbeing initiatives.

Diversity

Putting diversity and inclusion on the agenda helps the business to attract, retain and develop the best talent from every walk of life. During the year we:

- Trialled making certain roles part-time to work around school drop-off and pick-up times.
- Worked towards enhancing the support offered to working parents under our Moments That Matter project.
- Created a working party comprising individuals from the Online and IT teams to champion the attraction and development of female talent in technology.
- Signed up to Level 1 of the Disability Confident Scheme which supports employers to make the most of the talents disabled people can bring to the workplace.

Suppliers

We rely on our suppliers to provide the real estate through which we store and display our lines and provide essential services we need to operate our business. Our suppliers rely on us to generate revenue and employment for them.

Throughout the year the Next Plc Board was briefed on major contract renegotiations and strategy with regard to key suppliers, notably with certain landlords of the Group's premises. The Next Plc Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers.

Strategic Report (continued)

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 |
|--|--|
| <p>Business strategy development and implementation</p> <p>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.</p> | <p>The Board reviews business strategy on a regular basis to determine how sales and profit can be maximised, and business operations made more efficient.</p> <p>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.</p> |
| <p>Financial, treasury, liquidity and credit risks</p> <p>The Company's ability to meet its financial obligations and to support the operations of the business is dependent on having sufficient funding over the short, medium and long term.</p> <p>The Company is exposed to foreign exchange risk and profits may be adversely affected by unforeseen moves in foreign exchange rates.</p> <p>The Company might suffer financial loss if a counterparty with which it has transacted fails and is unable to fulfil its contract.</p> | <p>The Group operates 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.</p> <p>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.</p> |
| <p>Management of long term liabilities and capital expenditure</p> <p>Poor management of the Company's longer term liabilities and capital expenditure could jeopardise the long term sustainability of the business. It is important to ensure that the business continues to be responsive and flexible to meet the challenges of a rapidly changing Retail sector.</p> | <p>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 undertake regular reviews of lease expiry and break clauses to identify opportunities for exit or renegotiation of commitments.</p> <p>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</p> <p>We ensure that we make healthy returns on capital employed, commensurate with the risks involved in our sector (in practical terms this means a return of no less than 15% on capital invested).</p> <p>Appropriate amortisation accounting policies reduce the risk of unexpected significant write-off.</p> |

Strategic Report (continued)

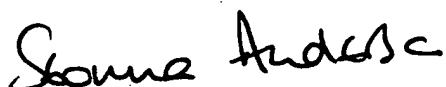
| Description of risk or uncertainty | How the risk or uncertainty is managed or mitigated |
|--|--|
| <p>Covid 19</p> <p>Since 25 January 2020, the spread of Covid-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time.</p> <p>Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.</p> <p>Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.</p> <p>The performance of NEXT Holdings Limited is based on the NEXT group's ability to trade safely and in line with government guidance.</p> | <p>On Thursday 26 March 2020, the group temporarily closed its UK warehouses and distribution networks in order to adapt its operations to working safely in a coronavirus world. During the 18 days of closure the group re-organised all aspects of its warehousing to ensure social distancing and improved sanitation. We re-organised the flow of pedestrians, adapted exits, entrances, congregation areas, rest areas and workstations. In addition, we changed our picking routines and delivery promise to smooth workflow during the day and eliminated the peaks in activity most likely to result in close contact between operatives.</p> <p>We re-opened our warehouse picking operation on Tuesday 14 April 2020, the ramp-up of operations was necessarily slow; staff inductions need to be conducted in small numbers to ensure that colleagues are completely familiar with new ways of working. This approach has, to date, been successful.</p> <p>The retail operations of the Group commenced in June 2020, the launch again built around ensuring the safety of staff and customers. The reopening of stores was staggered to ensure that the business was able to monitor performance and ensure safety measures are effective. While a second lockdown commenced on 5 November 2020, and a third at the start of 2021, the actions taken to revamp operations in the warehouse have enabled the Group to continue to sell to customers through its Online and click and collect operations.</p> <p>In addition to re-establishing the online and retail operations the group engaged with its banks and received agreement to waive the covenant compliance tests until January 2021 and was successful in its application to draw on the Bank of England's Covid Corporate Financing Facility (CCFF). Funding was approved on 3 April 2020.</p> <p>While the Company has not utilised this facility, and does not currently expect to draw upon it, it has nevertheless helped provide additional financial headroom during the current economic climate.</p> |

Strategic Report (continued)

Brexit

In June 2016, the United Kingdom voted to leave the European Union, leading to uncertainty in the financial markets and the wider economy. The full impact remains unclear until the outcome of political and trade negotiations is finalised. The Company's risks from this have been assessed alongside their potential impact and we will continue to closely monitor the on-going situation.

By order of the Board



Seonna Anderson
Secretary

25 January 2021

Directors' Report

Disclosures required under the 2013 amendment to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of employee matters (including the employment, training and advancement of disabled persons), financial risk management, future developments and environmental matters are given in the Strategic Report.

Dividends

Dividends of £nil were paid in the period (2019: £600.0m) and the directors do not recommend the payment of a final dividend.

Directors

The directors of the company who were in office during the period and up to the date of signing the financial statements were as follows:

Lord Wolfson of Aspley Guise
Amanda James
Jane Shields
Richard Papp

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. Accordingly, the assessment of going concern considered both the financial position and forecasts of the NEXT Group. The directors, report that, having reviewed current performance and forecasts, they have reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. As part of this review, a letter of support for the Company for at least 12 months from the date of signing has been signed by the directors of NEXT Plc.. For this reason, the directors have continued to adopt the going concern basis in preparing the financial statements.

Outlook

The challenges faced by the Group, and in turn the Company, are complex particularly given the impact of Covid 19. The Company will continue to focus on managing its overall financial position, cash flows and liquidity while providing general management and property related services to Group companies.

Post balance sheet events

The impact of the Covid 19 pandemic that has severely impacted on the global economy is discussed in the Strategic Report.

Independent auditors

PricewaterhouseCoopers LLP expressed their willingness to continue in office and a resolution proposing their reappointment was passed at the NEXT plc 2020 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 (2019: nil).

By order of the Board



Seonna Anderson
Secretary
25 January 2021

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 year. 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, 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 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.

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.

By order of the Board



Seonna Anderson

Secretary

25 January 2021

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 25 January 2020 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 25 January 2020; the profit and loss account, the statement of comprehensive income and 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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

Independent Auditors' Report

to the Members of NEXT Holdings Limited

(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 25 January 2020 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, 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.

Independent Auditors' Report

to the Members of NEXT Holdings Limited

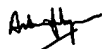
Other required reporting

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
15 January 2021

Profit and Loss Account

for the period ended 25 January 2020

| | | 52 weeks to 25 January 2020 | 52 weeks to 26 January 2019 <i>Restated</i> |
|--|------|--------------------------------|---|
| | Note | £m | £m |
| Turnover | 2 | 211.4 | 215.3 |
| Cost of sales | | (127.2) | (131.8) |
| Gross profit | | 84.2 | 83.5 |
| Other losses | | (22.8) | (44.6) |
| Operating profit | 3 | 61.4 | 38.9 |
| Income from shares in Group undertakings | 6 | 0.8 | 680.4 |
| Interest receivable and similar income | 7 | 122.5 | 118.6 |
| Interest payable and similar expenses | 7 | (62.6) | (69.3) |
| Profit before taxation | | 122.1 | 768.6 |
| Tax on profit | 8 | (26.5) | (10.4) |
| Profit for the financial period | | 95.6 | 758.2 |

All amounts relate to continuing operations.

Statement of Comprehensive Income

for the period ended 25 January 2020

| | | 52 weeks to 25 January 2020 | 52 weeks to 26 January 2019 <i>Restated</i> |
|---|------|--------------------------------|---|
| | Note | £m | £m |
| Profit for the period | | 95.6 | 758.2 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit and loss | | | |
| Actuarial gains on defined benefit pension scheme | 18 | 2.8 | 18.6 |
| Tax related to items that will not be reclassified | 8 | (0.5) | (3.2) |
| Other comprehensive income for the period | | 2.3 | 15.4 |
| Total comprehensive income for the financial period | | 97.9 | 773.6 |

Registered in England & Wales, no. 00035161

Balance Sheet

at 25 January 2020

| | Note | 25 January 2020 £m | 26 January 2019 Restated £m |
|---|------|--------------------------|--------------------------------------|
| Fixed assets | | | |
| Tangible assets | 10 | 100.2 | 80.2 |
| Investments | 11 | 184.4 | 184.5 |
| Right of use asset | 19 | 833.3 | 924.3 |
| Deferred tax asset | 8 | 7.9 | 11.6 |
| | | <u>1,125.8</u> | <u>1,200.6</u> |
| Current assets | | | |
| Inventories | | 0.3 | - |
| Debtors | | | |
| Amounts falling due after more than one year | 12 | 133.4 | 128.4 |
| Amounts falling due within one year | 13 | 1,295.9 | 1,489.7 |
| Cash at bank and in hand | 14 | - | 6.3 |
| | | <u>1,429.6</u> | <u>1,624.4</u> |
| Creditors: amounts falling due within one year | 15 | (612.3) | (860.4) |
| Net current assets | | <u>817.3</u> | <u>764.0</u> |
| Total assets less current liabilities | | 1,943.1 | 1,964.6 |
| Creditors: amounts falling due after more than one year | 16 | (1,069.5) | (1,191.1) |
| Provisions for liabilities | 17 | (16.9) | (15.6) |
| Net assets | | <u>856.7</u> | <u>757.9</u> |
| Capital and reserves | | | |
| Share capital | 21 | 1.0 | 1.0 |
| Profit and loss account | | <u>855.7</u> | <u>756.9</u> |
| Total equity | | <u>856.7</u> | <u>757.9</u> |

The financial statements on pages 12 to 49 were approved by the Board of Directors on 25 January 2021 and signed on its behalf by:



Amanda James
Director

Registered in England & Wales, no. 00035161

Statement of Changes in Equity

for the period ended 25 January 2020

| | <i>Share capital</i> | <i>Share premium account</i> | <i>Other reserves</i> | <i>Profit and loss account Restated</i> | <i>Total Restated</i> |
|--|----------------------|------------------------------|-----------------------|---|-----------------------|
| | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> |
| At 28 January 2018 | 29.8 | 3.8 | 14.6 | 536.1 | 584.3 |
| Profit for the financial period | - | - | - | 758.2 | 758.2 |
| Other comprehensive income for the period | - | - | - | 15.4 | 15.4 |
| Total comprehensive income for the period | - | - | - | 773.6 | 773.6 |
| 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 | - | - | 756.9 | 757.9 |
| Profit for the financial period | - | - | - | 95.6 | 95.6 |
| Other comprehensive income for the period | - | - | - | 2.3 | 2.3 |
| Total comprehensive income for the period | - | - | - | 97.9 | 97.9 |
| Tax recognised directly in equity | - | - | - | 0.9 | 0.9 |
| Equity dividends paid | - | - | - | - | - |
| At 25 January 2020 | 1.0 | - | - | 855.7 | 856.7 |

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies

General information

The Company was incorporated and is domiciled in the United Kingdom.

Basis of preparation

These financial statements were prepared in accordance with The Companies Act 2006 as applicable to companies using 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 25 January 2020 (last year 52 weeks to 26 January 2019) 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 following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).

IFRS 7, 'Financial instruments: Disclosures'.

Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:

- iii. Paragraph 79(a)(iv) of IAS 1;
- iv. Paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
- v. Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).

The following paragraphs of IAS 1, 'Presentation of financial statements':

- 10(d) (statement of cash flows);
- 16 (statement of compliance with all IFRS);
- 38A (requirement for minimum of two primary statements including cash flow statements);
- 38B-D (additional comparative information);
- 111 (statement of cash flows information); and
- 134-136 (capital management disclosures).

IAS 7, 'Statement of cash flows'.

Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

The Company participates in the NEXT Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary companies. Accordingly, the assessment of going concern considered both the financial position and forecasts of the NEXT Group. The directors, report that, having reviewed current performance and forecasts, they have reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. As part of this review, a letter of support for the Company for at least 12 months from the date of signing has been signed by the directors of NEXT Plc. For this reason, the directors have continued 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.

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.

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

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.

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 Profit and Loss account.

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

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.

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.

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

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 Profit and Loss account. |
| Loans and borrowings | Subsequently measured at amortised cost using the EIR method. The EIR amortisation is included in finance costs in the Profit and Loss account. |
| 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 Profit and Loss account.

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 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

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.

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

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.

Lease Accounting

Group as lessee

At inception of a contract the Group assesses whether the contract is or contains a lease. A lease is present where the contract conveys, over a period of time, the right to control the use of an identified asset in exchange for consideration.

Where a lease is identified the Group recognises a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

Lease liability – initial recognition

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted at the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments such as those that depend on an index or rate (such as RPI), initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options where the Group is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Consolidated Balance Sheet, split between current and non-current liabilities.

Lease liability – subsequent measurement

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

Lease liability – re-measurement

The lease liability is re-measured where:

- there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate or;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used) or;
- the lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

When the lease liability is re-measured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in profit or loss.

Where the lease liability is denominated in a foreign currency it is retranslated at the Balance Sheet date with foreign exchange gains and losses recognised in profit or loss.

Right-of-use asset – initial recognition

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the Group has an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

The right-of-use asset is presented as a separate line in the Balance Sheet.

Right-of-use asset – subsequent measurement

Right-of-use assets are depreciated over the shorter of the lease term and useful life of the underlying asset.

Impairment

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment – non-financial assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Short term leases and low value assets

For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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.

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.

Leases

Management exercises judgement in determining the lease term on its lease contracts. Within its lease contracts, particularly those in respect of its retail business, break options are included to provide operational and financial security should store performance be different to expectations. At inception of a lease, management will typically assess the lease term as being the full lease term as such break options are not typically considered reasonably certain to be exercised.

As stated in the accounting policies, the discount rate used to calculate the lease liability is based on the incremental borrowing rate. Incremental borrowing rates are determined monthly and depend on the lease term, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk free rate based on government bond rates; country specific risk and NEXT bond yields. The impact of an increase of 0.5% on the discount rate applied to the FY20 right-of use asset, depreciation charge, lease liability and finance cost is presented below.

Notes to the Financial Statements

for the period ended 25 January 2020

1. Accounting policies (continued)

| | |
|--------------------|---------------|
| Right-of use asset | £49m decrease |
| Depreciation | £9m decrease |
| Lease liability | £35m decrease |
| Finance cost | £6m increase |

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 16 "Leases"

The Group applies, for the first time, IFRS 16 "Leases". Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group.

IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. The Company applied IFRS 16 retrospectively, restating prior year comparatives. It applied the practical expedient to grandfather the definition of a lease on transition and apply the recognition exemption for both short term and low value leases.

Impact to financial statements

Restating the 2018/19 financial statements upon transition, the Company recognised an opening right-of-use asset of £923.7m and a lease liability of £1,357.1m. Including adjustments for working capital which existed under IAS 17, the retained earnings of the Group on transition reduced by £197.0m. This adjustment did not cause any hindrance to the distribution of dividends to shareholders.

The most significant lease liabilities relate to property and in particular the retail store portfolio. The lease liability under IFRS 16 is lower than that shown in the operating lease commitment note previously presented (in accordance with IAS 17) primarily due to the discounting of the future payments.

The opening right-of-use asset is lower than the opening lease liability as it includes lease incentives received and reflects the higher depreciation of the right-of-use asset compared to the reduction on the lease liability and accrued interest over the same period of time.

The Profit and Loss account reflected an increase to profit before taxation for the year ending January 2020 of £20.8m (2019: £10.1m). Operating profit increased by £82.0m (2019: £77.9m) as the depreciation on right-of-use assets was lower than the IAS 17 rental charge. Interest costs charged to the Profit and Loss account increased by £61.2m (2019: £67.8m) with the addition of higher finance costs on the newly recognised lease liability. The adoption of IFRS 16 did not impact the Group's effective tax rate.

IFRIC 23 was adopted by the Company on 27 January 2019 and Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform was early adopted in September 2019; neither of these have had a material impact on the Company.

Notes to the Financial Statements

for the period ended 25 January 2020

2. Turnover

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m |
|---------------|---|---|
| Rental income | 211.4 | 215.3 |

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

3. Operating profit

This is stated after charging/(crediting):

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m |
|---|---|---|
| Depreciation on owned assets | 0.4 | 0.3 |
| Depreciation on right-of-use asset | 129.6 | 128.9 |
| Recharge of pension contributions to subsidiary companies | - | (1.6) |
| Net foreign exchange differences | 4.8 | (34.3) |
| Auditors' remuneration: Audit services | 0.2 | 0.3 |

4. Staff costs

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m |
|------------------------------|---|---|
| Wages and salaries | 4.4 | 5.7 |
| Social security costs | 1.7 | 1.3 |
| Other pension costs | 1.1 | 0.4 |
| | 7.2 | 7.4 |
| Share based payments expense | | |
| Equity settled | 1.7 | 1.8 |
| Cash settled | - | - |
| | 8.9 | 9.2 |

The monthly average number of employees during the year was 48 (2019: 46). 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 45 (2019: 43). These employees are categorised as all working in professional and administrative related roles.

5. Directors' emoluments

None of the directors received any remuneration for their services as directors of the Company for the period ended 25 January 2020 (2019: £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 period ended 25 January 2020

6. Income from shares in Group undertakings

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m |
|--|---|---|
| Dividends from subsidiary undertakings | 0.8 | 680.4 |

7. Interest receivable and payable

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 Restated £m |
|--|---|---|
| Interest from Group undertakings | 122.4 | 118.5 |
| Other interest receivable | 0.1 | 0.1 |
| Total other interest receivable and similar income | 122.5 | 118.6 |
| Interest payable to Group undertakings | (1.0) | (1.0) |
| Other interest payable | (0.4) | (0.5) |
| Finance cost on lease liability | (61.2) | (67.8) |
| Total interest payable and similar expenses | (62.6) | (69.3) |

8. Tax on profit

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 Restated £m |
|--|---|---|
| <i>Current tax:</i> | | |
| UK corporation and overseas tax on profits of the period | 23.6 | 11.9 |
| Adjustments in respect of previous periods | (0.9) | 0.2 |
| Total current tax | 22.7 | 12.1 |
| <i>Deferred tax:</i> | | |
| Origination and reversal of temporary differences | (0.5) | 0.2 |
| Adjustments in respect of previous periods | (0.1) | (3.8) |
| Transition adjustment IFRS 16 | 4.4 | 1.9 |
| Tax charge reported in the Profit and Loss Account | 26.5 | 10.4 |

Notes to the Financial Statements

for the period ended 25 January 2020

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 25 January 2020 % | 52 weeks to 26 January 2019 Restated % |
|--|--|--|
| UK corporation tax rate | 19.0 | 19.0 |
| Non-deductible expenses / non-taxable (income) | 3.5 | (17.1) |
| Tax under provided in previous periods | (0.8) | (0.5) |
| Effective total tax rate on profit before taxation | <u>21.7</u> | <u>1.4</u> |

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 25 January 2020 £m | 52 weeks to 26 January 2019 £m |
|---|---|---|
| <i>Deferred tax:</i> | | |
| Defined benefit pension | <u>0.5</u> | <u>3.2</u> |
| Tax charge in the Statement of Comprehensive Income | <u>0.5</u> | <u>3.2</u> |

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m |
|--|---|---|
| <i>Current tax:</i> | | |
| Share based payments | 0.4 | - |
| <i>Deferred tax:</i> | | |
| Share based payments | <u>0.5</u> | <u>-</u> |
| Tax credit in the Statement of Changes in Equity | <u>0.9</u> | <u>-</u> |

Deferred taxation

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 Restated £m |
|--------------------------------|---|---|
| Accelerated capital allowances | 2.6 | 2.2 |
| Pension benefit obligations | 22.7 | 21.3 |
| Share based payments | (0.6) | (0.1) |
| IFRS 16 transition adjustment | (34.8) | (39.2) |
| Other temporary differences | <u>2.2</u> | <u>4.2</u> |
| | <u>(7.9)</u> | <u>(11.6)</u> |

Notes to the Financial Statements

for the period ended 25 January 2020

8. Tax on profit (continued)

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

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 Restated £m |
|---|---|---|
| Opening position | (11.6) | (13.1) |
| Charged/(credited) to the Profit and Loss Account | | |
| Accelerated capital allowances | 0.4 | - |
| Pension benefit obligations | 0.9 | - |
| Transition adjustment IFRS 16 | 4.4 | 1.9 |
| Other temporary differences | (2.0) | (3.6) |
| Recognised in the Statement of Comprehensive Income | 0.5 | 3.2 |
| Recognised in the Statement of Changes in Equity | (0.5) | - |
| Closing position | <u>(7.9)</u> | <u>(11.6)</u> |

Factors affecting tax charges in future years

Deferred taxes reflected in these financial statements have been measured using the enacted tax rates at the Balance Sheet date. This includes the enacted UK corporation tax rate of 17% for deferred taxes which was expected to take effect from 1 April 2020. Following the Budget on 11 March 2020 and the expectation that the headline UK corporation tax rate will remain at 19%, the Group's effective tax rate is forecast to remain broadly in line with the current year.

9. Dividends

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m |
|---|---|---|
| Equity dividends of £nil (2019: £60.00) per share | <u>-</u> | <u>600.0</u> |

Notes to the Financial Statements

for the period ended 25 January 2020

10. Tangible assets

| | <i>Freehold property</i> | <i>Leasehold property</i> | <i>Plant, fixtures, fittings, IT assets and vehicles</i> | <i>Total</i> |
|----------------------------------|------------------------------|-------------------------------|--|--------------|
| | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> |
| <i>Cost:</i> | | | | |
| At 26 January 2019 | 79.8 | 10.2 | 4.5 | 94.5 |
| Additions | 16.5 | - | 3.9 | 20.4 |
| Disposals | - | - | - | - |
| At 25 January 2020 | <u>96.3</u> | <u>10.2</u> | <u>8.4</u> | <u>114.9</u> |
| <i>Accumulated depreciation:</i> | | | | |
| At 26 January 2019 | 8.3 | 2.4 | 3.6 | 14.3 |
| Provided during the year | 0.2 | - | 0.2 | 0.4 |
| Disposals | - | - | - | - |
| At 25 January 2020 | <u>8.5</u> | <u>2.4</u> | <u>3.8</u> | <u>14.7</u> |
| <i>Carrying amount:</i> | | | | |
| At 25 January 2020 | <u>87.8</u> | <u>7.8</u> | <u>4.6</u> | <u>100.2</u> |
| At 26 January 2019 | <u>71.5</u> | <u>7.8</u> | <u>0.9</u> | <u>80.2</u> |

11. Investments

| | <i>Subsidiary undertakings</i> | <i>Associate and joint venture undertakings</i> | <i>Other investments</i> | <i>Total</i> |
|--|------------------------------------|---|------------------------------|--------------|
| | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> |
| <i>Cost:</i> | | | | |
| At 26 January 2019 | 185.5 | 3.3 | 1.0 | 189.8 |
| Retained loss | - | (0.1) | - | (0.1) |
| At 25 January 2020 | <u>185.5</u> | <u>3.2</u> | <u>1.0</u> | <u>189.7</u> |
| <i>Provisions:</i> | | | | |
| At 25 January 2020 and 26 January 2019 | <u>(5.1)</u> | <u>(0.2)</u> | <u>-</u> | <u>5.3</u> |
| <i>Carrying amount:</i> | | | | |
| At 26 January 2019 | 180.4 | 3.1 | 1.0 | 184.5 |
| At 25 January 2020 | <u>180.4</u> | <u>3.0</u> | <u>1.0</u> | <u>184.4</u> |

A full list of the Company's related undertakings is contained in the table on the following page. 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.

Notes to the Financial Statements

for the period ended 25 January 2020

11. Investments (continued)

| 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 |
| Marie Claire Beauty Limited* | Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom | 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-E-NA Portugal, Unipessoal LDA* | R. dos Transitarios 182 RCH, 4455-565 Matosinhos, Portugal | 100 |
| Next Europe & North Africa Morocco SARL* | Jean Jaures SARL, 49 rue Jean Jaures, Quartier Gauthier, Geme etage, Apt No 12, Casablanca, Morocco | 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 nábřeží 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* | 2 nd 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 Limited* | Giant Business Tower, Level 4&5, Plot #3, Sector-3, Dhaka Mymensingh Road, Uttara Commercial Area, Dhaka, 1230 Bangladesh | 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 |
| Project Norwich Limited | Desford Road, Enderby, Leicester, LE19 4AT, United Kingdom | 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 period ended 25 January 2020

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

| | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
|--|---|---|
| Defined benefit surplus | 133.4 | 125.0 |
| Amounts owed by other Group undertakings | - | 3.4 |
| | <u>133.4</u> | <u>128.4</u> |

More details on the defined benefit surplus of £133.4m (2019: £125.0m) 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

| | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 Restated £m</i> |
|--|---|--|
| Trade and customer debtors | 3.8 | 6.3 |
| Amounts owed by other Group undertakings | 1,227.7 | 1,397.4 |
| Amounts owed by Parent undertaking | 5.3 | - |
| Corporation tax receivable | 34.4 | 36.3 |
| Other debtors | 12.4 | 12.3 |
| Derivative financial instruments | - | 20.9 |
| Prepayments and accrued income | 12.3 | 16.5 |
| | <u>1,295.9</u> | <u>1,489.7</u> |

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

Notes to the Financial Statements

for the period ended 25 January 2020

14. Cash at bank and in hand

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £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 25 January 2020 £m | 52 weeks to 26 January 2019 £m <i>Restated</i> |
|--|---|--|
| Bank loans and overdrafts | - | 8.8 |
| Trade creditors | 13.9 | 13.7 |
| Amounts owed to parent undertaking | - | 400.0 |
| Amounts owed to other Group undertakings | 406.9 | 228.8 |
| Other taxation and social security | 2.4 | 1.1 |
| Lease liabilities | 165.6 | 166.1 |
| Derivative financial instruments | - | 20.7 |
| Accruals and deferred income | 23.5 | 21.2 |
| | <u>612.3</u> | <u>860.4</u> |

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.

Notes to the Financial Statements

for the period ended 25 January 2020

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

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m <i>Restated</i> |
|------------------------------------|---|--|
| Lease liabilities | 1,067.9 | 1,184.1 |
| Property lease incentives received | - | 5.6 |
| Other liabilities | 1.6 | 1.4 |
| | <u>1,069.5</u> | <u>1,191.1</u> |

17. Provisions for liabilities

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 £m <i>Restated</i> |
|---|---|--|
| Provision for costs of exiting properties occupied by the Group | 16.9 | 15.6 |
| | <u>16.9</u> | <u>15.6</u> |

| | <i>Vacant property costs £m Restated</i> |
|-----------------------------|--|
| At 26 January 2019 | 15.6 |
| Provisions made in the year | 0.7 |
| Utilisation of provisions | - |
| Release of provisions | - |
| Unwind of discount | 0.6 |
| At 25 January 2020 | <u>16.9</u> |

Provision is made for the costs of future rentals or estimated exit costs of leases of unoccupied property to which the Company is committed.

Notes to the Financial Statements

for the period ended 25 January 2020

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"). NEXT also contributes to the People's Pension which it uses as its auto-enrolment vehicle.

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.¹

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 period ended 25 January 2020

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 take inflation into account. 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 26% 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:

| | 2020 | | | | 2019 | | | |
|-------------------------------|--------------------|------------------------|-----------|-------------|--------------------|------------------------|-----------|-------------|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Current service cost | 5.6 | - | 0.4 | 6.0 | 7.8 | - | 0.4 | 8.2 |
| GMP equalisation | - | - | - | - | 0.4 | - | - | 0.4 |
| Net interest (income)/expense | (4.1) | (0.1) | 0.5 | (3.7) | (3.1) | (0.1) | 0.4 | (2.8) |
| Administration costs | 2.3 | 0.1 | - | 2.4 | 1.8 | 0.1 | - | 1.9 |
| Net defined benefit expense | 3.8 | - | 0.9 | 4.7 | 6.9 | - | 0.8 | 7.7 |

Notes to the Financial Statements

for the period ended 25 January 2020

18. Pension benefits (continued)

Other comprehensive income

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

| | 2020 | | | | 2019 | | | |
|--|--------------------|------------------------|-----------|-------------|--------------------|------------------------|-----------|-------------|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Actuarial gains due to liability experience | 18.8 | 2.3 | 0.2 | 21.3 | - | 2.5 | 0.3 | 2.8 |
| Actuarial (losses)/gains due to liability assumption changes | (130.1) | (12.9) | (3.2) | (146.2) | 56.0 | 4.8 | 1.0 | 61.8 |
| | (111.3) | (10.6) | (3.0) | (124.9) | 56.0 | 7.3 | 1.3 | 64.6 |
| Return on plan assets greater than/(less than) discount rate | 116.9 | 10.8 | - | 127.7 | (38.7) | (7.3) | - | (46.0) |
| Actuarial gains recognised in other comprehensive income | 5.6 | 0.2 | (3.0) | 2.8 | 17.3 | - | 1.3 | 18.6 |

Balance sheet valuation

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

| | 2020 | | | | 2019 | | | |
|--------------------------------------|--------------------|------------------------|-----------|-------------|--------------------|------------------------|-----------|-------------|
| | 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 | (735.1) | (141.5) | (17.3) | (893.9) | (617.8) | (134.5) | (16.4) | (768.7) |
| Fair value of plan assets | 883.6 | 143.7 | - | 1,027.3 | 757.2 | 136.5 | - | 893.7 |
| Net pension asset/(liability) | 148.5 | 2.2 | (17.3) | 133.4 | 139.4 | 2.0 | (16.4) | 125.0 |

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 period ended 25 January 2020

18. Pension benefits (continued)

Plan obligations

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

| | 2020 | | | | 2019 | | | |
|---------------------------|--------------------|------------------------|-----------|-------------|--------------------|------------------------|-----------|-------------|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Opening obligation | 617.8 | 134.5 | 16.4 | 768.7 | 667.3 | 146.0 | 17.0 | 830.3 |
| Current service cost | 5.6 | - | 0.4 | 6.0 | 7.8 | - | 0.4 | 8.2 |
| GMP equalisation | - | - | - | - | 0.4 | - | - | 0.4 |
| Interest cost | 17.7 | 3.5 | 0.5 | 21.7 | 16.5 | 3.4 | 0.4 | 20.3 |
| Employee contributions | 0.1 | - | - | 0.1 | 0.1 | - | - | 0.1 |
| Benefits paid | (17.4) | (7.1) | (3.0) | (27.5) | (18.3) | (7.6) | (0.1) | (26.0) |
| Transfers between plans | | | | | | | | |
| Actuarial losses/(gains) | | | | | | | | |
| - financial assumptions | 139.6 | 16.1 | 3.6 | 159.3 | (62.6) | (3.8) | (1.3) | (67.7) |
| - experience | (18.8) | (2.3) | (0.2) | (21.3) | - | (2.5) | (0.3) | (2.8) |
| - demographic assumptions | (9.5) | (3.2) | (0.4) | (13.1) | 6.6 | (1.0) | 0.3 | 5.9 |
| Closing obligation | 735.1 | 141.5 | 17.3 | 893.9 | 617.8 | 134.5 | 16.4 | 768.7 |

The present value of the defined benefit closing obligation of £893.9m was comprised of approximately 29% relating to active participants, 44% relating to deferred participants and 27% relating to pensioners.

Plan assets

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

| | 2020 | | | | 2019 | | | |
|--|--------------------|------------------------|-----------|-------------|--------------------|------------------------|-----------|-------------|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Opening assets | 757.2 | 136.5 | - | 893.7 | 788.5 | 148.0 | - | 936.5 |
| Employer contributions | 7.3 | - | - | 7.3 | 7.8 | - | - | 7.8 |
| Employee contributions | 0.1 | - | - | 0.1 | 0.1 | - | - | 0.1 |
| Benefits paid | (17.4) | (7.1) | - | (24.5) | (18.3) | (7.6) | - | (25.9) |
| Interest income on assets | 21.8 | 3.6 | - | 25.4 | 19.6 | 3.5 | - | 23.1 |
| Return on plan assets (excluding amounts included in interest) | 116.9 | 10.8 | - | 127.7 | (38.7) | (7.3) | - | (46.0) |
| Administrative costs | (2.3) | (0.1) | - | (2.4) | (1.8) | (0.1) | - | (1.9) |
| Closing assets | 883.6 | 143.7 | - | 1,027.3 | 757.2 | 136.5 | - | 893.7 |

Notes to the Financial Statements

for the period ended 25 January 2020

18. Pension benefits (continued)

The fair value of plan assets was as follows:

| | 2020 | | | | 2019 | | | |
|---------------------------|--------------------|------------------------|-------------|-------|--------------------|------------------------|-------------|-------|
| | 2013 Plan £m | Original Plan £m | Total £m | % | 2013 Plan £m | Original Plan £m | Total £m | % |
| Equities | 169.4 | - | 169.4 | 16.5 | 183.5 | - | 183.5 | 20.6 |
| Equity-linked bonds | 70.4 | - | 70.4 | 6.9 | 54.4 | - | 54.4 | 6.1 |
| Bonds | 116.8 | - | 116.8 | 11.4 | 98.5 | - | 98.5 | 11.0 |
| Gilts | 323.7 | 2.4 | 326.1 | 31.7 | 231.5 | 2.2 | 233.7 | 26.1 |
| Property | 109.9 | - | 109.9 | 10.7 | 102.3 | - | 102.3 | 11.4 |
| Insurance contracts | 92.3 | 141.2 | 233.5 | 22.7 | 79.2 | 134.3 | 213.5 | 23.9 |
| Cash and cash equivalents | 1.1 | - | 1.1 | 0.1 | 7.8 | - | 7.8 | 0.9 |
| | 883.6 | 143.6 | 1,027.2 | 100.0 | 757.2 | 136.5 | 893.7 | 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 2019 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

| | 2020 | | 2019 | |
|--|----------------------|------------------------------|----------------------|------------------------------|
| | Original Plan | 2013 and SPA | Original Plan | 2013 and SPA |
| Discount rate | 1.70% | 1.75% | 2.70% | 2.90% |
| Inflation – RPI | 3.25% | 2.80% | 3.40% | 3.15% |
| Inflation – CPI | 2.25% | 1.90% | 2.40% | 2.15% |
| Salary increases | | | | |
| Pension increases in payment | | | | |
| RPI with a maximum of 5.0% | 3.10% | 2.75% | 3.20% | 2.95% |
| RPI with a maximum of 2.5% and discretionary increases | 2.15% | 1.90% | 2.20% | 2.05% |
| | 2020 | | 2019 | |
| | Pensioner aged 65 | Non- pensioner aged 45 | Pensioner aged 65 | Non- pensioner aged 45 |
| Life expectancy at age 65 (years) | | | | |
| Male | 22.3 | 24.5 | 22.6 | 24.4 |
| Female | 24.2 | 26.5 | 24.8 | 26.6 |

Notes to the Financial Statements

for the period ended 25 January 2020

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. In previous years, the RPI assumption for the 2013 Plan and SPA allowed for the inflation risk premium of 0.2% per annum, however this was updated to 0.3% per annum for the 2020 year end to allow for the RPI reform expected from 2030. As in previous years, the Original Plan does not allow for an inflation risk premium because its assets and liabilities are almost fully matched.

The rate of consumer price inflation (CPI) is set 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 3 All Pensioner tables (with a multiplier of 101% for male and female pensioners and 103% for male non-pensioners and 100% for female non-pensioners). Future improvement trends have been allowed for in line with the most recent CMI core projection model (CMI 2018) with a long term trend towards 1.5% per annum and a smoothing factor of 7.5.

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:

| <i>Sensitivity analysis</i> | | <i>Impact on net pension asset as at 25 January 2020</i> |
|-----------------------------|---|--|
| Discount rate | 0.5% decrease | £77m decrease |
| Price inflation | 0.5% increase to RPI and CPI | £60m decrease |
| Price inflation | 0.1% decrease to CPI (i.e. increase in the gap between RPI and CPI) | £2m increase |
| Mortality | Life expectancy increased by one year | £18m 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 period ended 25 January 2020

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 £28m, therefore a deficit contribution was not payable in January 2020.

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.

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 5% of pensionable earnings which is matched by the Group.

Contributions paid by the Group are set out below:

| | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
|---|---|---|
| Defined contribution – recognised as an expense | 18.0 | 14.3 |
| Automatic enrolment – recognised as an expense | 12.6 | 7.2 |
| Defined benefit | 7.3 | 7.7 |
| | <u>37.9</u> | <u>29.2</u> |

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.

Notes to the Financial Statements

for the period ended 25 January 2020

19. Leases

| | | |
|--|---|---|
| Right-of-use assets: | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
| Buildings | 130.0 | 141.1 |
| Stores | 703.4 | 783.2 |
| | <u>833.3</u> | <u>924.3</u> |
| Lease liability: | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
| Current | 165.6 | 166.1 |
| Non-current | 1,067.9 | 1,184.1 |
| | <u>1,233.5</u> | <u>1,350.2</u> |
| Additions to right-of-use assets | 31.5 | 122.4 |
| Depreciation on right-of-use assets: | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
| Buildings | 12.8 | 12.6 |
| Stores | 116.8 | 116.3 |
| | <u>129.6</u> | <u>128.9</u> |
| | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
| Finance costs on leases | 61.2 | 67.8 |
| Expense on short term and low value leases | 2.6 | 2.6 |
| Expense on variable leases | 2.8 | 3.8 |

Notes to the Financial Statements

for the period ended 25 January 2020

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. Share capital

| | <i>No.</i> <i>'000</i> | <i>2020</i> <i>£m</i> | <i>No.</i> <i>'000</i> | <i>Authorised</i> <i>2019</i> <i>£m</i> |
|-----------------------------|---------------------------|---|---------------------------|---|
| Ordinary shares of 10p each | 10,000 | <u>1.0</u> | 10,000 | <u>1.0</u> |
| | | | | |
| | <i>No.</i> <i>'000</i> | <i>Allotted, called up and fully paid</i> <i>2020</i> <i>£m</i> | <i>No.</i> <i>'000</i> | <i>2019</i> <i>£m</i> |
| Ordinary shares of 10p each | 10,000 | <u>1.0</u> | 10,000 | <u>1.0</u> |

All shares rank pari passu in all respects.

Notes to the Financial Statements

for the period ended 25 January 2020

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 year was £64.35 (2019: £53.95). Options outstanding at 25 January 2020 are exercisable at prices ranging between £20.70 and £70.80 (2019: £13.99 and £70.80) and have a weighted average remaining contractual life of 6.2 years (2019: 5.9 years), further analysed in the table below.

| | 52 weeks to 25 January 2020 | | 52 weeks to 26 January 2019 | |
|----------------------------|-------------------------------|---|-------------------------------|---|
| | No. of options outstanding | Weighted average remaining contractual life (years) | No. of options outstanding | Weighted average remaining contractual life (years) |
| Exercise price range | | | | |
| £13.99 - £41.09 | 11,615 | 5.9 | 28,857 | 5.1 |
| £41.12 - £48.23 | 4,887 | 2.9 | 5,810 | 3.5 |
| £48.38 | 10,812 | 8.2 | 17,510 | 9.2 |
| £51.84 - £61.27 | 20,553 | 8.4 | 11,347 | 6.6 |
| £66.95 - £70.80 | 8,543 | 4.7 | 11,589 | 5.7 |
| Outstanding at end of year | <u>56,410</u> | 6.2 | <u>75,113</u> | 5.9 |

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 5.0 years (2019: 5.4 years). During the year ended 25 January 2020 and 26 January 2019 no SMP options were exercised as the awards did not vest.

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 period ended 25 January 2020

22. Equity settled share based payments (continued)

The weighted average remaining contractual life of these options is 1.4 years (2019: 1.5 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: | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
| Management recharge | 0.5 | 0.4 |
| Transactions with joint venture undertaking, Retail Restaurants Limited: | <i>52 weeks to 25 January 2020 £m</i> | <i>52 weeks to 26 January 2019 £m</i> |
| Loan receivable | 0.4 | 0.7 |
| Recharges of costs | - | 0.4 |
| Interest charges | 0.1 | 0.1 |
| | <u>0.5</u> | <u>1.2</u> |

The loan outstanding at the year end of £2.9m 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.

Notes to the Financial Statements

for the period ended 25 January 2020

25. IFRS 16 transition note

| Impact on profit for the year | Note | 52 weeks to 25 January 2020 Excluding IFRS 16 £m | Adjustments on Adoption of IFRS 16 £m | 52 weeks to 25 January 2020 £m |
|--|------|---|--|--------------------------------------|
| Turnover | | 211.4 | - | 211.4 |
| Cost of sales | (i) | (209.2) | 82.0 | (127.2) |
| Gross profit | | 2.2 | 82.0 | 84.2 |
| Other losses | | (22.8) | - | (22.8) |
| Operating (loss)/profit | | (20.6) | 82.0 | 61.4 |
| Income from shares in Group undertakings | | 0.8 | - | 0.8 |
| Interest receivable and similar income | | 122.5 | - | 122.5 |
| Interest payable and similar expenses | (i) | (1.4) | (61.2) | (62.6) |
| Profit before taxation | | 101.3 | 20.8 | 122.1 |
| Tax on profit | (v) | (22.6) | (3.9) | (26.5) |
| Profit for the financial year | | 78.7 | 16.9 | 95.6 |

| Impact on profit for the prior year | Note | 52 weeks to 26 January 2019 Excluding IFRS 16 £m | Adjustments on Adoption of IFRS 16 £m | 52 weeks to 26 January 2019 Restated £m |
|--|------|---|--|--|
| Turnover | | 215.3 | - | 215.3 |
| Cost of sales | (i) | (209.7) | 77.9 | (131.8) |
| Gross profit | | 5.6 | 77.9 | 83.5 |
| Other losses | | (44.6) | - | (44.6) |
| Operating (loss)/profit | | (39.0) | 77.9 | 38.9 |
| Income from shares in Group undertakings | | 680.4 | - | 680.4 |
| Interest receivable and similar income | | 118.6 | - | 118.6 |
| Interest payable and similar expenses | (i) | (1.5) | (67.8) | (69.3) |
| Profit before taxation | | 758.5 | 10.1 | 768.6 |
| Tax on profit | (v) | (8.5) | (1.9) | (10.4) |
| Profit for the financial year | | 750.0 | 8.2 | 758.2 |

Notes to the Financial Statements

for the period ended 25 January 2020

25. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 25 January 2020

| | Note | 25 January 2020 £m | IFRS 16 Adjustment £m | 25 January 2020 £m |
|---|-------|--------------------------|-----------------------------|--------------------------|
| Fixed assets | | | | |
| Tangible assets | | 100.2 | - | 100.2 |
| Investments | | 184.4 | - | 184.4 |
| Right of use asset | (ii) | - | 833.3 | 833.3 |
| Deferred tax asset | (v) | (26.9) | 34.8 | 7.9 |
| | | <u>257.7</u> | <u>868.1</u> | <u>1,125.8</u> |
| Current assets | | | | |
| Inventories | | 0.3 | - | 0.3 |
| Debtors | | | | |
| Amounts falling due after more than one year | | 133.4 | - | 133.4 |
| Amounts falling due within one year | (iv) | 1,343.7 | (47.8) | 1,295.9 |
| Cash at bank and in hand | | - | - | - |
| | | <u>1,477.4</u> | <u>(47.8)</u> | <u>1,429.6</u> |
| Creditors: amounts falling due within one year | (iii) | (495.3) | (117.0) | (612.3) |
| Net current assets | | <u>982.1</u> | <u>(164.8)</u> | <u>817.3</u> |
| Total assets less current liabilities | | 1,239.8 | 703.3 | 1,943.1 |
| Creditors: amounts falling due after more than one year | (iv) | (199.1) | (870.4) | (1,069.5) |
| Provisions for liabilities | | (11.9) | (5.0) | (16.9) |
| Net assets | | <u>1,028.8</u> | <u>(172.1)</u> | <u>856.7</u> |
| Capital and reserves | | | | |
| Share capital | | 1.0 | - | 1.0 |
| Profit and loss account | | 1,027.8 | (172.1) | 855.7 |
| Total equity | | <u>1,028.8</u> | <u>(172.1)</u> | <u>856.7</u> |

Notes to the Financial Statements

for the period ended 25 January 2020

25. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 26 January 2019

| | Note | 26 January 2019 £m | IFRS 16 Adjustment £m | 26 January 2019 Restated £m |
|---|-------|--------------------------|-----------------------------|--------------------------------------|
| Fixed assets | | | | |
| Tangible assets | | 80.2 | - | 80.2 |
| Investments | | 184.5 | - | 184.5 |
| Right of use asset | (ii) | - | 924.3 | 924.3 |
| Deferred tax asset | (v) | - | 11.6 | 11.6 |
| | | <u>264.7</u> | <u>935.9</u> | <u>1,200.6</u> |
| Current assets | | | | |
| Debtors | | | | |
| Amounts falling due after more than one year | | 128.4 | - | 128.4 |
| Amounts falling due within one year | (iv) | 1,539.2 | (49.5) | 1,489.7 |
| Cash at bank and in hand | | 6.3 | - | 6.3 |
| | | <u>1,673.9</u> | <u>(49.5)</u> | <u>1,624.4</u> |
| Creditors: amounts falling due within one year | (iii) | (738.7) | (121.7) | (860.4) |
| Net current assets | | <u>935.2</u> | <u>(171.2)</u> | <u>764.0</u> |
| Total assets less current liabilities | | 1,199.9 | 764.7 | 1,964.6 |
| Creditors: amounts falling due after more than one year | (iv) | (215.4) | (975.7) | (1,191.1) |
| Provisions for liabilities | | (37.8) | 22.2 | (15.6) |
| Net assets | | <u>946.7</u> | <u>(188.8)</u> | <u>757.9</u> |
| Capital and reserves | | | | |
| Share capital | | 1.0 | - | 1.0 |
| Profit and loss account | | 945.7 | (188.8) | 756.9 |
| Total equity | | <u>946.7</u> | <u>(188.8)</u> | <u>757.9</u> |

Notes to the Financial Statements

for the period ended 25 January 2020

25. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 27 January 2018

| | Note | 27 January 2018 £m | IFRS 16 Adjustment £m | 27 January 2018 Restated £m |
|---|-------|--------------------------|-----------------------------|--------------------------------------|
| Fixed assets | | | | |
| Tangible assets | | 78.9 | - | 78.9 |
| Investments | | 181.5 | - | 181.5 |
| Right of use asset | (ii) | - | 923.7 | 923.7 |
| Deferred tax asset | (v) | - | 41.1 | 41.1 |
| | | <u>260.4</u> | <u>964.8</u> | <u>1,225.2</u> |
| Current assets | | | | |
| Debtors | | | | |
| Amounts falling due after more than one year | | 106.2 | - | 106.2 |
| Amounts falling due within one year | (iv) | 1,156.8 | (50.3) | 1,106.5 |
| Cash at bank and in hand | | - | - | - |
| | | <u>1,263.0</u> | <u>(50.3)</u> | <u>1,212.7</u> |
| Creditors: amounts falling due within one year | (iii) | (484.8) | (116.6) | (601.4) |
| Net current assets | | <u>778.2</u> | <u>(166.9)</u> | <u>611.3</u> |
| Total assets less current liabilities | | 1,038.6 | 797.9 | 1,836.5 |
| Creditors: amounts falling due after more than one year | (iv) | (218.9) | (988.1) | (1,207.0) |
| Provisions for liabilities | | (38.4) | (6.8) | (45.2) |
| Net assets | | <u>781.3</u> | <u>(197.0)</u> | <u>584.3</u> |
| Capital and reserves | | | | |
| Share capital | | 29.8 | - | 29.8 |
| Share premium account | | 3.8 | - | 3.8 |
| Other reserves | | 14.6 | - | 14.6 |
| Profit and loss account | | 733.1 | (197.0) | 536.1 |
| Total equity | | <u>781.3</u> | <u>(197.0)</u> | <u>584.3</u> |

Notes to the Financial Statements

for the period ended 25 January 2020

25. IFRS 16 transition note (continued)

(i) Profit and Loss account

Under the previous accounting standard for leases, IAS 17, lease costs were recognised on straight line basis over the term of the lease. The Company recognised these costs within cost of sales and distribution costs.

On adoption of IFRS 16 these costs have been removed and replaced with costs calculated on an IFRS 16 basis. The impact of removing these costs on the January 2020 Profit and Loss account was £211.6m (2019: £206.8m).

Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Company has recognised the depreciation costs on the right-of-use asset in cost of sales. The impact of this adjustment in the January 2020 Profit and Loss account was £129.6m (2019: £128.9m).

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to cost of sales and distribution costs. The net impact of this adjustment in the January 2020 Profit and Loss account was £82.0m (2019: £77.9m).

Under IFRS 16 finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the January 2020 Profit and Loss account was £61.2m (2019: £67.8m).

The net impact of the above adjustments to the January 2020 profit before tax was £20.8m (2019: £10.1m).

(ii) Right-of-use asset

IFRS 16 has resulted in the recognition of a right-of-use asset. This asset represents the Company's contractual right to access an identified asset under the terms of the lease contract.

(iii) Lease liability

IFRS 16 has resulted in the recognition of a lease liability. This liability represents the Company's contractual obligation to minimum lease payments during the lease term.

The element of the liability payable in next 12 months is recognised as a current liability with the balance recognised in non-current liabilities.

(iv) Working capital

Under IAS 17 certain lease incentives, rent prepayments, accruals and similar amounts were held on the balance sheet as part of working capital. Such balances are no longer recognised as all payments, lease incentives and related costs are reflected in either the right-of-use asset or the lease liability.

(v) Taxation

A deferred tax asset has been recognised on the transition to IFRS 16 representing the timing difference on the amounts taken to reserves. The deferred tax asset created at the point of transition will unwind over the life of the leases held at the date of transition.

Notes to the Financial Statements

for the period ended 25 January 2020

25. Post Balance Sheet Event

Covid 19

Subsequent to the balance sheet date the spread of Covid 19 has adversely impacted on the operations of the wider Group. In particular the Retail and Online operations temporarily ceased to trade at the end of March 2020. These operations subsequently reopened; Retail has not yet reached the levels of pre-Covid 19 trade and has been subject to further temporary cessations of trade during Autumn 2020 and at the start of 2021. As a result of the closure, and our updated forecast, we have assessed assets within the Group for potential impairment with total impairment charges of £41m recognised to date. Management will continue to monitor this position going forward.

Sale and leaseback transaction

In April 2020 the Company undertook two sale and leaseback transactions.

Firstly, the freehold title of its Head Office site was sold to a third party for £48m and then immediately leased back for a term of 35 years. As a result of this transaction the Company recognised a Right-of-use asset of £38m and lease liability of £42m.

Secondly, Next Holdings Limited sold the freehold title to a warehouse site to a fellow group subsidiary, Next Group Plc. Subsequently, Next Group Plc sold the freehold title to a third party for cash proceeds of £97m and then immediately leased it back for a term of 26 years.

The cash from these transactions has been used to improve the Company and Group's liquidity and financial headroom during the Covid 19 pandemic.