NEXT Retail Limited

Reports and Financial Statements

26 January 2019

Registered No: 4521150

Contents

Registered in England & Wales

Desford Road
Enderby
Leicester
LE19 4AT

Strategic Report

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

Results

The profit for the 52 week period ended 26 January 2019 after taxation, amounted to £424.3m (52 week period ended 27 January 2018: £434.5m).

The principal activities of the Company during the period comprised the supply of merchandise including Womenswear, Menswear, Childrenswear, Lingerie, Footwear, Sportswear, Accessories, Fashion Jewellery, Cosmetics and Home Furnishings, through a chain of retail shops in the UK, Eire and Scandinavia (NEXT Retail), a home shopping catalogue and websites serving around 70 countries (NEXT Online), a finance business offering credit to customers (NEXT Finance), and a franchise network with overseas partners (NEXT International Retail). Next Retail Limited is a private company limited by shares.

Business strategies and objectives

The Company's principal objective is to provide exciting, beautifully designed, excellent quality clothing and homeware. The directors aim to achieve this objective by implementing the following strategies:

- Improving and developing our product ranges, success in which is measured by sales performance.
- Focusing on customer experience and satisfaction levels in both Retail stores and Online.
- Increasing the number of profitable NEXT Online credit and cash customers and their spend, both in the UK and internationally, complemented by our LABEL offering of branded products and the credit facility (next**pay**) we offer to our UK NEXT Online customers.
- Maximising the profitability of retail selling space. New store appraisals must meet demanding financial criteria before the investment is made, and success is measured by achieved profit contribution and return on capital against appraised targets.
- Managing gross and net margins through efficient product sourcing, stock management and cost control.
- Maintaining the Group's financial strength through an efficient balance sheet and secure financing structure.

TOTAL SALES excluding VAT* (52 v 52 weeks)	**January 2019 £m**	**January 2018 £m**	**Annual Change**
NEXT Retail	1,955.1	2,123.0	-7.9%
NEXT Online	1,918.8	1,672.4	+14.7%
NEXT Finance	250.3	223.2	+12.1%
Total NEXT Brand sales excluding VAT	4,186.4	4,018.6	+2.6%
Statutory turnover (52 v 52 weeks)	4,043.1	3,950.3	+2.3%

** Total sales excludes VAT and includes the gross value of commission based sales, interest income and sales made through NEXT Retail and NEXT Online on behalf of Lipsy Limited, a fellow Group company. Statutory turnover excludes VAT and sales made on behalf of Lipsy Limited and other third-party brands, but includes net commission receivable by NEXT Retail Limited in respect of those commission based sales.*

During the year the Company altered the internal reporting of sales and profit to separately disclose the NEXT Finance business unit. This reporting better reflects the nature of the different business models within the Company. NEXT Finance provides credit for customers to purchase product. The segment revenue represents the interest charged to customers on their credit account balances. The segment profit

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includes all associated costs, including administrative costs, financing and bad debt. The interest cost is calculated on the basis that the Group lends all funds to NEXT Finance and charges an interest rate equivalent to the Group's cost of borrowing.

In January 2018 the Lipsy.co.uk website was closed and all Lipsy online sales are now made through the next.co.uk website and reported in NEXT Online. 2018 segment total sales and profit have been restated to show the prior year Lipsy.co.uk sales in NEXT Online for better comparability.

The Group operates an increasing number of commission based agreements with third-party brands, including some which are sourced by Lipsy Limited (a fellow subsidiary) and sold through NEXT Retail Limited's sales channels. Lipsy brand products are also sold through NEXT Online and in some NEXT Retail stores.

The total sales analysis above includes the following:

1. £121.9m (2018: £76.1m) Lipsy sales made through the NEXT website are included in NEXT Online.
2. £12.9m (2018: £14.6m) Lipsy sales made in NEXT retail stores are included in NEXT Retail.

Review of the period

NEXT RETAIL

Full price Retail sales were down -7.3%, which was +1.2% ahead of our initial budget for the year. Total sales, including markdown sales, reduced by -7.9%. Net new space contributed +0.6% to total sales growth. Profits reduced by -21%, driven mainly by the diseconomies of scale caused by declining like-for-like sales of -8.5%.

Retail sales

	2019	*2018*
Total like-for-like sales	-7.9%	-9.8%
Full price like-for-like sales	-7.3%	-9.1%
Total sales (excl. VAT)	£1,955.1m	£2,123.0m

NEXT defines like-for-like stores as those that have traded for at least one full year. Sales from these stores for the current year are then compared with the same period in the previous year to calculate like-for-like sales figures. This calculation excludes stores impacted by new store openings.

Retail space

Net Retail space increased by 23,000 square feet in the year, taking our portfolio to 8.3m square feet.

	2019	*2018*	*Annual change*
Store numbers	507	528	-4.0%
Square feet (000's)	7,989	8,029	-0.5%

Trading space is defined as the trading floor area of a store, which excludes stockroom and administration area and is shown at the financial year end.

Looking ahead, we expect that trading space will increase by around 50,000 square feet during 2019, subject to lease renewal negotiations. We expect new stores to add +160k sq ft, mainline store closures to deduct -60k sq ft and clearance store closures to deduct -50k sq ft.

Portfolio shape and profitability

Store numbers decreased from last year by 3.9%, which is a total of 23 store closures, 15 mainline and 8 clearance. Over the last 12 months, following most store closures, we have seen an encouraging amount of sales transfer to nearby NEXT stores. On average this has been around 25% of the sales lost from the

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closing stores. This level of transfer may not be indicative of ***all*** future closures but if it is, it will mitigate much of the profit lost from store closures going forward.

As a result of the active management of our store portfolio, the vast majority of our stores make a healthy profit, with 93% of our space delivering a net branch profit[1] of more than 10%. The table below sets out the percentage of our turnover within stores of different levels of profitability as at January 2019.

Mainline store profitability[2]	*Percentage of turnover*
>20%	59%
>15%	81%
>10%	93%
>5%	97%
>0%	98%

Returns on capital and profitability

Branch profitability[3] of the portfolio opened or extended in the last 12 months was 21% of VAT inclusive sales. Payback on the net capital invested was 27.5 months, which is marginally beyond our internal payback hurdle of 24 months and reflective of the difficulty in predicting new store performance in the current environment.

Retail profit analysis

Full year net margin has declined by 1.8% to 10.9%. The table below sets out significant margin movements by the major heads of costs.

Net margin on total sales last year		**12.7%**
Bought-in gross margin	Improved underlying bought-in gross margin added +0.2% to margin.	**+0.2%**
Markdown	Stock for Sale was down -13% with markdown sales down -11%. The combination of improved clearance rates and a higher participation of full price sales increased margin by +0.5%.	**+0.5%**
Store payroll	Productivity initiatives more than offset underlying pay increases.	**+0.1%**
Store occupancy	Falling like-for-like sales increased occupancy costs as a percentage of sales.	**-2.0%**
Warehouse & distribution	Falling sales increased costs as a percentage of sales.	**-0.6%**
Net margin on total sales this year		**10.9%**

Bought-in gross margin is the difference between the cost of stock and the initial selling price. Net operating margin is profit after deducting markdowns and all direct and indirect trading costs. Bought-in-gross margin and net operating gross margin are both expressed as a percentage of achieved total VAT exclusive sales.

[1] Net branch profit is defined as profit before central overheads and expressed as percentage of VAT inclusive sales.
[2] Mainline stores are non-clearance stores. Clearance stores sell stock left over from the NEXT end-of-season Sale activity.
[3] Branch profitability is defined as profit before central overheads and is expressed as a percentage of VAT inclusive sales.

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NEXT ONLINE

Full price sales grew by +14.8%, with total sales growth (including markdown[4]) of +14.7%. Net margin was 18.4%.

Online sales

The table below shows the year on year growth in full price sales for each element of the Online business. The UK has been broken down to show the contribution made by our third-party brands business, LABEL.

Full price sales growth	£m	% var	H1[5]	H2
NEXT Brand UK	75	+8.3%	+10.7%	+6.3%
LABEL UK[5]	80	+28.8%	+26.7%	+30.5%
Total UK	*155*	*+13.1%*	*+14.4%*	*+12.0%*
Overseas	64	+22.1%	+22.0%	+22.1%
Total full price sales	**219**	**+14.8%**	**+16.0%**	**+13.8%**

Online customer base

Average active customers increased by +8% to 5.3 million, driven by the growth in Overseas and UK cash customers (those who do not use our next**pay** credit account when ordering). UK credit customers increased by +1%. The table below sets out the growth in the respective parts of our customer base.

Average active customers (m)	Jan 2019	Jan 2018	
UK Credit	2.52	2.49	+1%
UK Cash	1.66	1.50	+11%
Total UK	**4.18**	**3.99**	**+5%**
Overseas Cash	1.15	0.94	+22%
Total	**5.33**	**4.93**	**+8%**

*Active customers are defined as those who have placed a Online order or received a standard account statement in the last 20 weeks. Credit customers are those who order using a Online credit account (next**pay** account), whereas cash customers are those who pay when ordering.*

Online overseas

Online Overseas continues to trade well. Full price sales for the year were up +22%. Total sales (including markdown sales) were up + 23%. Overseas sales are achieved through our own website nextdirect.com and via third-party websites. Growth by each channel is set out in the table below. Like-for-like sales from partners that traded in both years were up +57% and we ceased trading with three major partners during the last year (Tmall in China, 3Suisse and, temporarily, Jabong in India).

Full price sales £m	Jan 2019	Jan 2018	
nextdirect.com	320.8	259.3	+24%
Third Parties			
New[6]	0.7	-	-

[4] Markdown sales were up +13.8%; this includes Clearance offers and all Sale events up to the year end date.
[5] Our Home Branded business continues to grow and is becoming a meaningful part of our LABEL business. As a result, some longstanding third-party Brands sold in our Home division, historically reported within NEXT, have been reclassified from NEXT Brand UK to LABEL UK. In the year to January 2018, this increased LABEL UK full price sales and reduced NEXT Brand UK by £4m.
[6] Where we are trading in a new country with an established partner, we have classified the sales as 'New'.

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Continuous	25.2	16.0	+57%
Discontinued	7.2	14.6	- 51%
Full price Overseas sales	**353.9**	**289.9**	**+22%**

LABEL

LABEL has had an excellent year with full price sales up **+29%.** Growth has been driven by:

- Increasing sales with our existing partner brands, where we have successfully increased our breadth of offer and improved stock availability.
- The introduction of new partner brands (such as All Saints and River Island).

Sales and Profit

The table below sets out sales, profits and net margins for LABEL.

£m	Jan 2015	Jan 2016	Jan 2017	Jan 2018[7]	Jan 2019	Jan 2020 (e)
Total sales	151	187	215	303	414	475
Operating profit	21	23	35	52	70	81
Net margin	**14%**	**12%**	**16%**	**17%**	**17%**	**17%**
Operating profit including all central overheads					66	76
Net margin including all central overheads					**16%**	**16%**

More than half of our third-party branded business is now sold on a commission basis[8]. Although we make lower net margins on the commission model, we encourage our brand partners to adopt it because we believe that it will generate higher sales growth. This belief is reinforced by our sales performance as demonstrated in the table below; the growth rate of commission brands is higher than the rate of those bought on a wholesale basis.

Full price sales £m	**Jan 2019**	**Jan 2018**	
Wholesale	172	138	+25%
Commission	**184**	**138**	**+33%**
LABEL full price sales	356	276	+29%

We plan to continue extending our third-party offer with some important new clothing brands and an increased focus on new homeware and furniture brands. In the run up to Christmas last year, we significantly expanded our Beauty offer and we hope to develop this business further in the year ahead.

[7] Our Home branded business continues to grow and is becoming a meaningful part of our LABEL business. As a result, some longstanding third-party brands sold in our Home division, historically reported within NEXT, have been reclassified from NEXT Brand UK to LABEL UK. In the year to January 2018, this increased LABEL UK total sales and reduced NEXT Brand UK by £5m, £4.5m of which, was full price.

[8] Lipsy operates as an internal commission brand partner and its sales are included within commission brand sales.

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Online profit analysis

Full year operating margin has reduced by 0.1% to 18.4%, the reasons for which are detailed below.

Net margin on total sales last year – restated		18.5%
Bought-in gross margin	Underlying NEXT bought-in gross margin has improved by +0.2%. An increase in the participation of third-party branded sales, which have a lower bought-in gross margin, reduced margin by -1.4%.	**-1.2%**
Markdown	Surplus stock for Sale was down -0.5% but markdown sales were up +3.8%. The combination of improved clearance rates and a higher participation of full price sales increased margin by +1.0%.	**+1.0%**
Warehouse & distribution	Growth in Overseas sales, which have a higher cost of distribution, eroded margin by -0.3%. Reduced delivery income from next**unlimited** has reduced margin by a further -0.3%. Other operational costs have reduced margin by -0.4%.	**-1.0%**
Catalogues and photography	Production of fewer catalogues has increased margin by +1.1%. Photography savings have increased margin by +0.2%.	**+1.3%**
Marketing & systems	Investment in both marketing and systems meant costs have grown slightly faster than sales.	**-0.2%**
Net margin on total sales this year		**18.4%**

International Retail and franchise stores

Our franchise partners currently operate 199 stores in 32 countries and we have six owned stores in three countries (Czech Republic, Slovakia and Sweden). Profit has reduced primarily due to a reduction in royalty income from our two largest franchise partners.

NEXT FINANCE

NEXT Finance ended the year with £1.2bn of outstanding consumer debt and contributed £121m of profit to the Group.

The performance of our Finance business is shown in the table below.

£m	Jan 2019	Jan 2018	
Note of nextpay credit sales	*1,688.8*	*1,562.6*	*+8.1%*
1) Interest income	250.3	223.2	**+12.1%**
2) Bad debt charge	(52.1)	(37.4)	+39.0%
3) Overheads	(36.9)	(33.3)	+10.6%
Profit before cost of funding	**161.3**	**152.5**	**+5.9%**
4) Cost of funding	(40.1)	(40.6)	- 1.1%
Net profit	**121.2**	**111.9**	**+8.4%**
5) Average debtor balance	£1,140m	£1,014m	+12.5%
6) ROCE (after cost of funding)	10.6%	11.0%	

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OUTLOOK FOR 2019/2020

The challenges facing the business are complex but the actions that we are required to take remain simple. Our priorities for the year ahead remain focussed on the following tasks:

- Delivering great product ranges – the most important task of all!
- Continued development of the operational capabilities of our distribution Platform –warehousing, distribution and stores. The aim is to optimise the availability of our stock, breadth of offer, quality of service and cost efficiency.
- Develop our third-party business through enhancing the range of products we offer and the quality of service we provide to our partner brands.
- Continue to improve and invest in the functionality of our website, marketing, systems and mobile applications.
- Maximise the opportunity for profitable growth overseas.
- Manage costs across the Group, with particular focus on managing Retail costs down with falling like-for-like sales, whilst not allowing cost savings to undermine the quality of our products or services.
- Maintain excellent financial discipline to ensure all parts of our business deliver sustainable margins and healthy returns on capital.

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Risks and uncertainties

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

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Business strategy development and implementation If the Board adopts the wrong business strategy or does not implement its strategies effectively, our business may suffer. The Board therefore needs to understand and properly manage strategic risk, taking into account specific retail sector risk factors, in order to deliver long term growth for the benefit of the Company's stakeholders.	The Board reviews business strategy on a regular basis to determine how sales and profit can be maximised, and business operations made more efficient. The Board and senior management consider strategic risk factors, wider economic and industry specific trends that affect the Group's businesses, the competitive position of its product and the financial structure of the Group. In common with other retailers we continue to experience a significant shift by customers from shopping in retail stores to shopping online. Longer term financial scenarios for our Retail business have been prepared and stress tested during the year. This process provides a mechanism for ensuring that business profitability is maximised through efficient allocation of resources and management of costs.
Management team Our success relies on the continued service of our senior management and technical personnel, and on our ability to attract, motivate and retain highly qualified employees.	Remuneration packages are reviewed at least annually and are formulated to retain and motivate these employees, including long term incentive schemes. Remuneration policies are designed to be simple, transparent and aligned to the business strategy of delivering sustainable long-term shareholder value. The Board considers the development of senior management to ensure there are opportunities for career development and promotion to important management positions.
Product design and selection Our success depends on designing and selecting products that customers want to buy, at appropriate price points and stocked in the right quantities. In the short term, a failure to manage this risk may result in surplus stocks that cannot be sold and may have to be disposed of at a loss. Over the longer term a failure to meet the design, quality and value expectations of our customers will adversely affect the reputation of the NEXT Brand.	Executive directors and senior management continually review the design, selection and performance of NEXT product ranges and those of other brands sold by NEXT. To some extent, product risk is mitigated by the diversity of our ranges. Executive directors and senior management regularly review product range trends to assess and correct any key selection or product issues. Corrections to significant missed trends or poorer performing ranges are targeted for amendment, with alternative products being sourced. Senior product management approve quality standards, with in-house quality control and testing teams in place across all product areas. Senior management regularly review product recalls and

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product safety related issues.

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Key suppliers and supply chain management Reliance on our supplier base to deliver products on time and to quality standards is essential. Failure to do so may result in an inability to service customer demand or adversely affect NEXT's reputation. Changes in global manufacturing capacity and costs may impact on profit margins. Non-compliance by suppliers with the NEXT Code of Practice may increase reputational risk or undermine our reputation as a responsible retailer.	Stock availability is reviewed on an ongoing basis and appropriate action taken where service or delivery to customers may be negatively impacted. Management continually seek ways to develop our supplier base to reduce over reliance on individual suppliers to maintain the quality and competitiveness of our offer. The Group's supplier risk assessment procedures establish contingency plans in the event of key supplier failure. Existing and new sources of product supply are developed in conjunction with NEXT Sourcing, external agents and/or direct suppliers. Our in-house global Code of Practice team carry out regular inspections of our product related suppliers' operations to ensure compliance with the standards set out in our Code. These standards cover supplier production methods, employee working conditions, quality control and inspection processes. We train relevant employees and communicate with suppliers regarding our expectations in relation to responsible sourcing, anti-bribery, human rights and modern slavery.
Warehousing and distribution Our warehousing and distribution operations provide fundamental support to the running of the business. Risks include business interruption due to physical damage, access restrictions, breakdowns, capacity and resourcing shortages, IT systems failure, inefficient processes and third-party failures. The recent acceleration in our Online sales has taken some of our warehouses closer to some of their capacity limits.	Planning processes are in place to ensure there is sufficient warehouse handling capacity for expected future business volumes over the short and longer terms. Service levels, warehouse handling, inbound logistics and delivery costs are continually monitored to ensure goods are delivered to our warehouses, Retail stores and Online customers in a timely and cost efficient manner. Business continuity plans and insurance are in place to mitigate the impact of business interruption.
Customer experience The Company's performance depends on the recruitment and retention of customers, and on its ability to drive and service customer demand. This includes having an attractive, functional and reliable website, a well organised and attractive store environment, effective call centres, operating successful marketing strategies, and providing both Retail and Online customers with service levels that meet or exceed their expectations.	Continued investment in the development of NEXT's UK and overseas websites, with a particular focus on improving the online customer experience. Market research and customer feedback is used to assess customer opinions and satisfaction levels to help to ensure that staff remain focused on delivering excellent customer service. Ongoing monitoring of website and call centre support operations, including an online chat facility, to ensure sufficient capacity to handle volumes and queries.

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Call centre employees receive comprehensive training on an ongoing basis, to ensure they achieve the highest standards of service

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Information security, business continuity and cyber risk The continued availability and integrity of our IT systems is critical to successful trading. Our systems must record and process substantial volumes of data and conduct inventory management accurately and quickly. Continuous enhancement and investment is required to prevent obsolescence and maintain responsiveness. The threat of unauthorised or malicious attack is an ongoing risk, the nature of which is constantly evolving and becoming increasingly sophisticated. Our brand reputation could be negatively impacted by cyber security breaches.	Significant investment in systems' development and security programmes has continued during the year, complemented by in-house dedicated information security resources. Systems vulnerability and penetration testing is carried out regularly by both internal and external resources to ensure that data is protected from corruption or unauthorised access or use. Critical systems backup facilities and business continuity plans are reviewed and updated regularly. Major incident simulations and business continuity tests are carried out periodically. IT risks are managed through the application of internal policies and change management procedures, contractual service level agreements with third-party suppliers, and IT capacity management. A Group wide GDPR awareness programme was undertaken providing employee data security training, review and update of data inventories, third party contract updates and third party security audits.
Retail store network NEXT Retail's performance depends on profitably managing the trading space of the store network, including lease portfolio and refurbishment decisions. Successful development of new stores depends on a number of factors including identification of suitable properties, obtaining planning permissions and the negotiation of acceptable lease terms.	Our predominantly leased store portfolio is actively managed by senior management, with openings, refits and closures based on strict store profitability and cash payback criteria. We will continue to invest in new space where our financial criteria are met, and will renew and refurbish our existing portfolio when appropriate. We undertake regular reviews of lease expiry and break-clauses to identify opportunities for exit or renegotiation of commitments. Leases will not be automatically renewed if acceptable terms are not agreed. The Board regularly reviews our lease commitments, new store openings and potential store closures. Senior management have undertaken regular reviews of our Retail store cost base in order to identify key efficiency

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opportunities.

Senior management undertake scenario stress testing of our store portfolio to review and manage profitability. This includes pessimistic long-term scenarios.

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Financial, treasury, liquidity and credit risks NEXT'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. NEXT is reliant on the availability of adequate financing from banks and capital markets to meet its liquidity needs. NEXT is exposed to foreign exchange risk and profits may be adversely affected by unforeseen moves in foreign exchange rates. NEXT might suffer financial loss if a counterparty with which it has transacted fails and is unable to fulfil its contract. NEXT is also exposed to credit risk, particularly in respect of our Online customer receivables, which at £1.2bn represents the largest item on the Balance Sheet.	NEXT operate a centralised treasury function which is responsible for managing liquidity, interest and foreign currency risks. It operates under a Board approved Treasury policy. Approved counterparty and other limits are in place to mitigate NEXT's exposure to counterparty failure. The Group's debt position, available funding and cash flow projections are regularly monitored and reported to the Board. The Board will agree funding for the Group in advance of its requirement to mitigate exposure to illiquid market conditions. NEXT has a Treasury Committee which includes the Group Finance Director. The Treasury Committee usually meets weekly to review the Group's treasury and liquidity risks including foreign exchange exposures. Rigorous procedures are in place with regards to our credit account customers, including the use of external credit reference agencies and applying set risk criteria before acceptance. These procedures are regularly reviewed and updated. Continual monitoring of our credit customers' payment behaviours and credit take up levels is in place.

Employees

The Company's employees are integral to achieving its business objectives and the Company actively takes steps to attract, retain and develop the best talent at every level throughout the business. We are committed to creating an environment where all individuals feel welcomed, respected and supported. The NEXT Group has established policies for recruitment, training and development of personnel and is committed to achieving excellence in health, safety, and welfare.

Equal opportunities and diversity

NEXT Retail Limited is an equal opportunities employer and will continue to ensure that it offers career opportunities without discrimination. Full consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities and in accordance with relevant

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legislation. The Company continues the employment wherever possible of any person who becomes disabled during their employment, providing assistance and modifications where possible. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

Training and development
NEXT Retail Limited aims to realise the potential of its employees by supporting their career progression and promotion wherever possible. It makes significant investment in the training and development of staff and in training and education programmes which contribute to the promotion prospects of employees.

Employee communication
Employees are kept informed of performance and strategy through regular updates from members of the Board. We also ensure that the suggestions and views of employees are taken into account. NEXT have a number of effective workforce engagement mechanisms in place across the Group. This includes an employee forum made up of elected representatives from Head Office who attend meetings at least twice a year with directors and senior managers. These forums encourage open discussion on key business issues, policies and the working environment.

During 2019/20, we intend to supplement this employee engagement with a number of additional meetings with representatives of our workforce. Each of these meetings will be attended by our Chief Executive, a non-executive director, our HR director and other senior management.

Pension provision
The Company's employees are eligible to participate in the NEXT Group Pension Plan which provides a valuable pension benefit to its participating employees, details of which are set out in Note 17 to the financial statements.

Taxation
The NEXT Group manages its tax affairs responsibly and proactively to comply with tax legislation. We seek to build solid and constructive working relationships with all tax authorities.

Social, community and human rights

NEXT Retail Limited is committed to the principles of responsible business by addressing key business related social, ethical sustainability and environmental matters. Senior directors and managers representing key areas of the business take responsibility for corporate responsibility and sustainability. NEXT strives continually to make improvements by:

- acting in an ethical manner;
- recognising, respecting and protecting human rights;
- developing positive relationships with our suppliers and business partners;
- recruiting and retaining responsible employees;
- taking responsibility for our impact on the environment;
- delivering value to our customers; and
- delivering support through donations to charities and community organisations.

Human rights
NEXT Retail Limited recognises its responsibility to respect human rights throughout its operations. The Company is committed to ensuring that people are treated with dignity and respect by upholding internationally recognised human rights principles encompassed in the Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

The Company's approach is to implement the United Nations Guiding Principles on Business and Human Rights (UN Guiding Principles). As a business we seek to avoid infringing the human rights of others and work to address any adverse human rights impacts we identify. Our corporate responsibility reporting aligns with the United Nations Guiding Principles Reporting Framework.

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NEXT Retail Limited takes seriously any allegation of human rights abuse in all its forms and will not tolerate human rights abuse anywhere in its operations. We are committed to building knowledge and awareness and we have developed a range of training and awareness initiatives for our employees, suppliers, business partners and service providers.

For further information, refer to the NEXT Human Rights and Modern Slavery Policy, the latest Corporate Responsibility Report and our Modern Slavery Statement, all of which are published on our corporate website at nextplc.co.uk.

Suppliers
NEXT Retail Limited continues to focus on its supply chain as it recognises that there is potential for human rights issues to arise in this area. In common with other retailers, NEXT's product supply chain is both diverse and dynamic. During the year, NEXT products were sourced from around 1,400 direct and indirect (i.e. sourced via agents) suppliers, with products manufactured in around 43 countries. The challenge of trading ethically and acting responsibly towards the workers in our own and our suppliers' factories is a key priority which is managed by the NEXT Code of Practice (COP) Team, made up of 47 of our employees based in key sourcing locations.

NEXT's COP programme is based on the Ethical Trading Initiative Base Code and International Labour Conventions and has nine key principles that stipulate the minimum standards with which suppliers are required to comply. The COP team deliver training to our product teams, other relevant employees, to third parties providing NEXT product and to other third party goods and services providers, ensuring they understand the vital role they play in our ethical trading programme.

The COP team carried out over 2,000 factory audits in 2018/19 and work directly with suppliers to identify and address causes of non-compliance. NEXT also recognises the importance of partnership and collaboration, both with our suppliers and with other brands and organisations, to work to resolve some of the more complex problems which we are unable to solve alone. Traceability and transparency of our suppliers' factories is an important part of NEXT's overall approach to corporate responsibility. We publish a list of those suppliers' manufacturing sites producing NEXT branded products at nextplc.co.uk.
The 'Duty to report on payment practices and performance' legislation under section 3 of the Small Business, Enterprise and Employment Act 2015, came into effect for NEXT during this financial year. NEXT has cancelled and uploaded relevant supplier KPIs onto the HMRC government portal.

Customers
The NEXT Group is committed to offering stylish, quality products to its customers which are well made, functional, safe and are sourced in a responsible manner. The Company's technologists work closely with buyers, designers and suppliers to ensure its products comply with all relevant legislation and its own internal standards where these are higher. The expertise of independent safety specialists for clothing, footwear, accessories, beauty and home products is used where required.

NEXT Retail Limited endeavours to provide a high quality service to its customers, whether they are shopping through our stores or online. NEXT Customer Services interacts with customers to resolve enquiries and issues. Together with telephone, postal and email communications, we also provide an online chat facility for our customers to ask questions or provide their feedback. Findings are reviewed and the information is used by relevant business areas to review how products or services can be improved.

Health and safety
NEXT recognises the importance of health and safety. The Group's objective is to manage all aspects of its business in a safe manner and take practical measures to ensure that its activities and products do not harm the public, customers, employees or contractors. Policies and procedures are reviewed and audited regularly.

Environmental matters

The Company recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future.

Strategic Report

Key areas of focus are:

- Energy use and emissions from stores, warehouses, distribution centres and offices;
- Waste created in stores, warehouses, distribution centres and offices

NEXT Retail Limited remains committed to reducing its carbon footprint by reducing energy consumption throughout its operations, minimising and recycling waste, cutting transport emissions and reducing the packaging in our products.

By order of the Board

Seonna Anderson
Secretary
16 July 2019

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), future developments and environmental matters are given in the Strategic Report. No donations were made for political purposes (2018: £nil).

Dividends

Equity dividends were paid during the financial period of £600m (52 week period ended 27 January 2018: £500m). The directors do not propose payment of a final dividend.

Directors

The directors who served the Company during the period and up to the date of signing were as follows:

Lord Wolfson of Aspley Guise
Michael Law (resigned 27 July 2018)
Amanda James

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

Going concern

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

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

Independent Auditors

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

Disclosure of information to the auditors

In accordance with the provisions of section 418 of the Companies Act 2006, 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
- they have 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.

By order of the Board

Seonna Anderson
Secretary
16 July 2019

Directors' Responsibilities Statement

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

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

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

The directors are 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.

Seonna Anderson

Seonna Anderson
Secretary
16 July 2019

Independent Auditors' Report to the Members of NEXT Retail Limited

Report on the audit of the financial statements

Opinion
In our opinion, NEXT Retail Limited's financial statements:

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

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

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

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

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

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

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

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

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

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

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

Independent Auditors' Report to the Members of NEXT Retail Limited

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Lyon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
16 July 2019

Profit and Loss Account

for the 52 week period ended 26 January 2019

	Notes	52 weeks to 26 January 2019 £000	52 weeks to 27 January 2018 Restated £000
Turnover	2	4,043,136	3,985,501
Cost of sales		(2,654,995)	(2,668,635)
Gross profit		1,388,141	1,316,866
Distribution costs		(543,325)	(477,164)
Administrative expenses		(188,076)	(180,473)
Operating profit	3	656,740	659,229
Loss on disposal of investment		(7,672)	-
Interest receivable	6	15	-
Interest payable	7	(117,647)	(105,073)
Profit before taxation		531,436	554,156
Tax on profit	8	(107,171)	(119,688)
Profit for the financial period		424,265	434,468

Statement of Comprehensive Income

for the 52 week period ended 26 January 2019

	Notes	52 weeks to 26 January 2019 £000	52 weeks to 27 January 2018 £000
Profit for the financial period		424,265	434,468
Other comprehensive income and expenses			
Items that may be reclassified to profit or loss			
Gains/(Losses) on cash flow hedges		67,583	(116,038)
Transferred to Profit and Loss Account on cash flow hedges		24,311	(8,205)
Transferred to the carrying amount of hedged items on cash flow hedges		(12,639)	15,451
Tax relating to components of other comprehensive (expense)/income	8	(13,473)	19,664
Other comprehensive income/(expense) for the period		65,782	(89,128)
Total comprehensive income for the period		490,047	345,340

Registered in England, no. 4521150

Balance Sheet
at 26 January 2019

	Notes	*26 January 2019 £000*	*27 January 2018 Restated £000*
Fixed assets			
Intangible assets	10	2,496,368	2,496,368
Tangible assets	11	330,864	353,157
		2,827,232	2,849,525
Current assets			
Stock	12	499,643	465,228
Customer and other receivables			
Due after more than one year	13	20,884	33,678
Due within one year	14	1,383,616	1,187,094
Right of return asset		23,400	23,400
Cash at bank and in hand	15	111,251	32,314
		2,038,794	1,741,714
Trade and other payables: amounts falling due within one year	16	(2,021,691)	(1,635,544)
Net current assets		17,103	106,170
Total assets less current liabilities		2,844,335	2,955,695
Trade and other payables: amounts falling due after more than one year	16	-	(547)
Net assets		2,844,335	2,955,148
Capital and reserves			
Called up share capital	20	1	1
Fair value reserve		359	(59,159)
Profit and loss account		2,843,975	3,014,306
Total equity		2,844,335	2,955,148

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

A James

Amanda James
Director

Statement of Changes in Equity

for the 52 week period ended 26 January 2019

	Share capital £000	*Fair value reserve £000*	*Profit and loss account £000*	*Total £000*
At 28 January 2017	1	29,969	3,076,056	3,106,026
Profit for the financial period	-	-	434,468	434,468
Other comprehensive expense for the period	-	(89,128)	-	(89,128)
Total comprehensive (expense)/income for the period	-	(89,128)	434,468	345,340
Equity dividends paid	-	-	(500,000)	(500,000)
Tax recognised directly in equity	-	-	3,782	3,782
At 27 January 2018	1	(59,159)	3,014,306	2,955,148
Profit for the financial period	-	-	424,265	424,265
Other comprehensive income for the period	-	65,782	-	65,782
Total comprehensive income for the period	-	65,782	424,265	490,047
Equity dividends paid	-	-	(600,000)	(600,000)
Transfer between reserves	-	(6,264)	6,264	-
Tax recognised directly in equity	-	-	(860)	(860)
At 26 January 2019	1	359	2,843,975	2,844,335

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

1. Accounting policies
Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS101") and the Companies Act 2006.

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

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

As explained in the Directors' Report on page 15, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

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

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

The Company has taken advantage of the exemption under paragraph 8(j) of FRS101 not to disclose details of key management compensation.

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

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

This is a departure from the requirements of the Companies Act 2006 which requires amortisation of goodwill. However, the departure is necessary in order that the financial statements show a true and fair view, as the carrying value of goodwill is not considered to reduce gradually over its life. By recognising any impairments as they arise, this better reflects the true carrying value of the goodwill and is consistent with FRS101.

Tangible assets
Plant and vehicles are stated at cost less accumulated depreciation and impairment.
Depreciation is charged so as to write down the cost of plant and vehicles 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:

Plant and vehicles	6 – 25 years

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.

Stock
Stock is valued at the lower of standard cost or net realisable value. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Customer and Other Receivables

Customer receivables represent outstanding customer balances less an allowance for impairment. Customer receivables are recognised when the Company becomes party to the contract which happens when the goods are despatched. They are derecognised when the rights to receive the cash flows have expired e.g. due to the settlement of the outstanding amount or where the Company has transferred substantially all the risks and rewards associated with that contract. Other trade receivables are stated at invoice value less an allowance for impairment. Customer and other receivables are subsequently measured at amortised cost as the business model is to collect contractual cash flows and the debt meets the Solely Payment of Principal and Interest (SPPI) criterion.

Impairment

In accordance with the accounting policy for impairment – financial assets, the Company recognises an allowance for Expected Credit Losses (ECLs) for customer and other receivables. IFRS 9 requires an impairment provision to be recognised on origination of a customer advance, based on its ECL.

The directors have taken the simplification available under IFRS 9 5.5.15 which allows the loss amount in relation to a trade receivable to be measured at initial recognition and throughout its life at an amount equal to lifetime ECL. This simplification is permitted where there is either no significant financing component (such as customer receivables where the customer is expected to repay the balance in full prior to interest accruing) or where there is a significant financing component (such as where the customer expects to repay only the minimum amount each month), but the directors make an accounting policy choice to adopt the simplification. Adoption of this approach means that Significant Increase in Credit Risk (SICR) and Date of Initial Recognition (DOIR) concepts are not applicable to the Group's ECL calculations.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

ECL is the product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted at the original Effective Interest Rate (EIR). The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect of IFRS 9 requires considerable judgement as to how changes in economic factors affect ECLs.

IFRS 9 "*Financial instruments*" paragraph 5.5.20 ordinarily requires an entity to not only consider a loan, but also the undrawn commitment and the ECL in respect of the undrawn commitment, where its ability to cancel or demand repayment of the facility does not limit its exposure to the credit risk of the undrawn element. However, the guidance in IFRS 9 on commitments relates only to commitments to provide a loan (that is, a commitment to provide financial assets, such as cash) and excludes from its scope rights and obligations from the delivery of goods as a result of a contract with a customer within the scope of IFRS 15 "*Revenue from contracts with customers*" (that is, a sales commitment). Thus, the sales commitment (unlike a loan commitment) is not a financial instrument, and therefore the impairment requirements in IFRS 9 do not apply until delivery has occurred and a receivable has been recognised.

Impairment charges in respect of customer receivables are recognised in the Income Statement within cost of sales.

Delinquency is taken as being in arrears and credit impaired is taken as being the loan has defaulted, which is considered to be the point at which the debt is passed to an internal or external Debt Collection Agency (DCA) and a default registered to a Credit Reference Agency (CRA), or any debt 90 days past due.

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

1. Accounting policies (continued)

Delinquency and default are relevant for the estimation of ECL, which segments the book by credit score, banded into very low risk, low risk, medium risk and high risk, by arrears stage.

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a repayment plan with the Company. Where receivables have been written off, if recoveries are subsequently made, they are recognised in profit or loss.

The key assumptions in the ECL calculation are:
PD: The "Probability of Default" is an estimate of the likelihood of default over the expected lifetime of the debt. NEXT has assessed the expected lifetime of customer receivables and other trade receivables to be no more than 36 months, based on historical payment practices. The debt is segmented by arrears stage, Experian's Consumer Indebtedness Index (a measure of consumers' affordability) and expected time of default.
EAD: The "Exposure at Default" is an estimate of the exposure at that future default date, taking into account expected changes in the exposure after the reporting date, i.e. repayments of principal and interest, whether scheduled by the contract or otherwise and accrued interest from missed payments. This is stratified by arrears stage, Experian's Consumer Indebtedness Index and expected time of default.
LGD: The "Loss Given Default" is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that NEXT would expect to receive, discounted at the original effective interest rate. It is usually expressed as a percentage of the EAD. NEXT includes all cash collected over five years from the point of default.

The Company uses probability weighted economic scenarios, in order to evaluate a range of possible outcomes as is required by IFRS 9, that are integrated into the model. The inputs and models used for the ECLs may not always capture all characteristics of the market at the Balance Sheet date. To reflect this, qualitative adjustments or overlays are made, based on external data, historical performance and future expected performance.

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 in other comprehensive income or directly in equity. In such cases, the related tax is also recognised in other comprehensive income or directly in equity.

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

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

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

1. Accounting policies (continued)

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.

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.

Turnover

Turnover represents the fair value of amounts receivable for goods and services and is stated net of discounts, value added taxes and returns. Sales of goods are recognised on delivery.

It is the Company's policy to sell its products to the retail customer with a right to return within 14 days. Accumulated experience is used to estimate and provide for such returns at the time of sale. The Company does not operate any loyalty programmes. Turnover from the sale of gift cards is deferred until their redemption.

Online credit account interest is accrued on a time basis by reference to the principal outstanding and the effective interest rate.

Where third-party goods are sold on a commission basis, only the commission receivable is included in statutory turnover. To aid comparability, "Total sales" are disclosed in the Strategic Report which includes the full customer sales value of commission based sales and interest income, excluding VAT.

Foreign currencies
Transactions in foreign currencies other than an entity's functional currency are recorded at the exchange rate on the transaction date, while assets and liabilities are translated at exchange rates at the balance sheet date. Exchange differences are recognised in the Profit and Loss Account.

Derivative financial instruments and hedge accounting
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").

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

1. Accounting policies (continued)

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

Financial assets	*Classification under IFRS 9*
Other financial assets (derivatives designated as hedging instruments)	Fair value through profit or loss– hedging instrument
Customer and other receivables, Right of return asset	Amortised cost – hold to collect business model and SPPI met
Cash and short term deposits	Amortised cost

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

Subsequent measurement

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

Financial assets at FVPL	Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	Subsequently measured at amortised cost using the effective interest rate (EIR) method. The amortised cost is reduced by impairment losses. Interest income, impairment or gain or loss on derecognition are recognised in profit or loss.

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 impairment methodology applied depends on whether there has been a significant increase in credit risk. The most significant financial assets of the Company are its intercompany receivables, which are referred to as "Amounts owed by parent undertaking" and "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. For trade and customer debtors the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables,

Financial liabilities

Initial recognition and measurement

The Company has classified its financial liabilities as follows:

Financial liabilities	**Classification under IFRS 9**
Other financial liabilities (Derivatives designated as hedging instruments)	Fair value through profit or loss – hedging instrument
Trade and other payables	Amortised cost

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

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

Subsequent measurement

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

Financial liabilities at FVPL	Subsequently measured at fair value. Gains and losses are recognised in the Income Statement.
Financial liabilities at amortised cost	Subsequently measured at amortised cost using the EIR method. The EIR amortisation is included in finance costs in the Income Statement.

Derecognition

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

Offsetting of financial instruments

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

Other Financial Assets and Liabilities: Derivative Financial Instruments and Hedge Accounting

Derivative financial instruments ("derivatives") are used to manage risks arising from changes in foreign exchange rates impacting the Company's transactions. 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 designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss, since the hedged item affects profit or loss (for example, through cost of sales).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Hedge documentation

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

In accordance with IFRS 9 "Financial instruments", the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an "economic relationship" between the hedged item and the hedging instrument.
- The effect of the credit risk does not "dominate the value changes" that result from the economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged items that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of the hedged item.

Pension arrangements

The Company participates in a group pension plan which has both a defined benefit and a defined contribution section. The plan is funded externally under supervision of a board of trustees.

It is not possible to identify the Company's share of the assets and liabilities in the defined benefits scheme on a consistent and reasonable basis. Therefore, in accordance with IAS 19 "Retirement benefits" paragraph 34 (a), the scheme is accounted for as if it were a defined contribution scheme for the purpose of the Company's financial statements.

The trustee of the defined benefit scheme is a limited company, NEXT Pension Trustees Limited (the "Trustee"). The Board of the Trustee currently comprises of six directors. Four of these directors are member of the 2013 Plan and two directors (including the Chairman) are independent and have no other connection to NEXT. Two of these directors are member nominated directors and cannot be removed by NEXT. The other four directors, including the two independent directors are appointed by and can be removed by NEXT. All directors of the Trustee receive a fee for their services, including those directors who are also employees of NEXT. No director of the Company is a director of the Trustee.

The Plans' investments are kept separate from the business of the NEXT Group and the Trustee holds them in separate trusts. Responsibility for investment of the Plans' funds has been delegated to professional investment managers.

Full details of the scheme are available in NEXT plc annual accounts. Please refer to Note 19 in those accounts for further details.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Leasing commitments

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

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

Significant areas of estimation and judgment

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

a) Recoverable amount of Online customer receivables

The provision for potentially irrecoverable debtors (refer to Note 14) is calculated using a combination of internally and externally sourced information, including historical default and collection rates and other credit data. The basis for identifying when debtors are potentially impaired has been applied consistently. A 2% movement in the expected rate of cash collection would move the provision by £2m.

b) Net realisable value of inventories

The selling prices of inventory are estimated to determine the net realisable value of inventory. Historical sales patterns and post year end trading performance are used to determine these. A 2% change in the volume of inventories going to clearance would impact the net realisable value by c£4m. A 2% change in the level of markdown applied to the selling price would impact the value of inventories going to clearance by c£6m.

c) Defined benefit pension valuation

The assumptions applied in determining the defined benefit pension obligation (Note 17), 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. 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.

Adoption of new accounting standards, interpretations and amendments

For the financial period ended 26 January 2019 the Company has adopted IFRS 15 "*Revenue from contracts with customers*" and IFRS 9 "*Financial instruments*" for the first time. The nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 supersedes IAS 11 "*Construction contracts*", IAS 8 "*Revenue*" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has adopted IFRS 15 using the fully retrospective method of adoption, thereby restating comparatives, and did not apply any optional practical expedients. The key considerations along with the impact of adopting IFRS 15 are described below. **There was no impact on profit after tax or retained earnings on the adoption of IFRS 15.**

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Sale of goods
The Company's contracts with customers for the sale of product generally include one performance obligation. The Company has concluded that revenue from the sale of product should be recognised at the point in time when control of the asset is transferred to the customer i.e. on the delivery of the product. This does not represent a change to the accounting policy and therefore, **the adoption of IFRS 15 does not have an impact on the timing of revenue recognition.**

Variable consideration
Product sales provide customers with a right of return within a specified period and are therefore deemed to be variable under IFRS 15.

Under IFRS 15, the Company uses the expected value method to estimate the value of goods that will be returned because this method best predicts the amounts of variable consideration to which the Company will be entitled. Under the old standard, IAS 8, expected returns were estimated using a similar approach and therefore **no adjustment to the value of variable consideration was required on transition to IFRS 15**.

In terms of presentation, prior to the adoption of IFRS 15, the amount of revenue relating to expected returns was deferred and recognised in the Balance Sheet within *customer receivables* (for purchased on credit) or *current trade payables and other liabilities*, with a corresponding adjustment to *cost of sales*. The initial carrying amount of goods expected to be returned was included within *stock*.

Under IFRS 15 the Group presents a separate *right of return asset* on the face of the Balance Sheet, which represents an asset for the right to recover product from the customer. This was reclassified from *stock*. Presented as a separate component of *trade payables and other liabilities* is the refund liability due to customers on the return of their goods (refer to Note 16). The refund liability relating to sales through the next**pay** credit offer continues to be presented as part of *customer receivables* (refer to Note 14 as it is settled net.

In summary the adjustments to the Balance Sheet were as follows:

	27 January 2018 As previously reported £m	Adjustments £m	27 January 2018 Restated £m
Non-current assets	2,849.5	-	2,849.5
Current assets			
Stock	488.6.0	(23.4)	465.2
Customer and other receivables	1,220.8	-	1,220.8
Right of return asset	-	23.4	23.4
Cash at bank and in hand	32.3	-	32.3
Total current assets	1,741.7	-	1,741.7
Current liabilities	(1,635.5)	-	(1,635.5)
Non-current liabilities	(0.5)	-	(0.5)
Net assets	2,955.1	-	2,955.1

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

1. Accounting policies (continued)

Principal versus agent considerations

Under IFRS 15 certain income streams were reclassified to reflect the nature of the control of the goods before they were transferred to customers. In the majority of cases the Group was considered the principal in the transaction under IFRS 15 and recognised the full sale within revenue, rather than netted off costs. The resulting adjustments increased revenue by £40.3m (2018: £35.2m) with £nil impact on profit (2018: £nil).

IFRS 9 "Financial instruments"

IFRS 9 replaces IAS 39 "*Financial instruments: recognition and measurement*" for annual periods beginning on or after 1 January 2018, which covers the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company applied IFRS 9 retrospectively, except for the hedge accounting requirements which were applied prospectively. **The impact of the application of IFRS 9 was not material to the net assets or profit for the period or prior period**. Prior year balances have not been restated for IFRS 9. Revised accounting policies for IFRS 9 are detailed below.

Classification and measurement

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at 28 January 2018. There were no changes to the carrying amounts of these assets and liabilities on transition to IFRS 9.

Financial assets	Original classification under IAS 39	New classification under IFRS 9
Derivatives not designated as hedging instruments	Fair value through profit or loss	Fair value through profit or loss
Derivatives designated as hedging instruments	Fair value – hedging instrument	Fair value – hedging instrument
Customer and other receivables	Loans and receivables	Amortised cost
Cash and short term deposits	Loans and receivables	Amortised cost
Non-listed equity instruments	Available-for-sale investments	Fair value through OCI
Financial liabilities		
Derivatives not designated as hedging instruments	Fair value through profit or loss	Fair value through profit or loss
Derivatives designated as hedging instruments	Fair value – hedging instrument	Fair value – hedging instrument
Interest-bearing loans and borrowings:		
Bank loans and overdrafts	Loans and borrowings	Amortised cost
Trade and other payables at amortised cost	Other financial liabilities	Amortised cost

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

1. Accounting policies (continued)

Impairment

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. **The new methodology adopted by NEXT has not had a material impact on the level of provision held for impairment losses.** As a retailer, NEXT is not required to provide against undrawn credit under the ECL model as the Company is selling product (is a "Merchant of Goods") rather than a provider of financial instruments.

Hedge accounting

The Company applied the IFRS 9 hedge accounting model prospectively. IFRS 9 requires that hedge accounting relationships are aligned with the risk management objectives and strategy of the Company and applies a more qualitative and forward-looking approach to assessing hedge effectiveness.

At the date of initial application of IFRS 9, all of the Company's existing hedging relationships were eligible to be treated as continuing hedge relationships. Consistent with prior periods, the Company has continued to designate the change in fair value of the entire forward contract in the Company's cash flow hedge relationship and, as such, the adoption of the hedge accounting requirements of IFRS 9 had not had a significant impact on the Company's financial statements.

Prior to 28 January 2018, the Company classified foreign currency options as held-for-trading derivatives and accounted for them as Fair Value through Profit or Loss. The fair value of options are divided into two portions:

- the intrinsic value - which is determined by the difference between the strike price and the current market price of the underlying; and
- the time value - which is the remaining value of the option which reflects the volatility of the price of the underlying and the time remaining to maturity.

Following the adoption of IFRS 9, the Company is now designating the intrinsic value of foreign currency options as hedging instruments. The intrinsic value is determined with reference to the relevant spot market exchange rate. Changes in the time value of the options that relate to the hedged item are deferred in the cost of hedging reserve and recognised against the related hedge transaction when it occurs.

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

2. Turnover

	2019	2018
		Restated
	£000	£000
Sale of goods	3,787,265	3,754,685
Directory account interest	250,322	223,235
Royalties	5,549	7,581
	4,043,136	3,985,501

Turnover by geographical location:

	2019	2018
	£000	£000
United Kingdom	3,564,135	3,532,443
Rest of Europe	258,901	223,650
Asia	51,187	55,778
Middle East	133,773	109,621
Rest of World	35,140	28,809
	4,043,136	3,950,301

3. Operating profit

This is stated after charging/(crediting):

	2019	2018
	£000	£000
Depreciation on owned assets	94,966	94,256
Loss on disposal of tangible assets	500	503
Impairment of tangible assets	1,468	3,236
Operating lease rentals*:		
Minimum lease payments	3,697	4,189
Net foreign exchange gains	(10,800)	(3,020)
Auditors' remuneration:		
Audit services	354	304
Assurance services	57	-
Cost of stock recognised as an expense	1,518,184	1,502,262
Write down of stock to net realisable value	96,104	111,763
Trade receivables:		
Impairment charge	58,353	28,304
Amounts recovered	(5,914)	(4,025)

* Store related costs (including rent) are recharged from fellow wholly owned subsidiaries and as such disclosures in relation to these transactions are exempt from disclosure, see Note 18. Full rental disclosures are set out in the financial statements of Next Holdings Limited.

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

4. Staff costs

	2019 £000	2018 £000
Wages and salaries	385,168	393,858
Social security costs	26,727	26,720
Other pension costs	18,512	14,143
	430,407	434,721
Share based payments expense:		
Equity settled	10,871	11,247
Cash settled	(850)	(5,738)
	440,428	440,230

The monthly average number of employees during the period was as follows:

	2019 No.	2018 No.
Retail, Online and Finance	32,205	33,476
Other activities	75	78
	32,280	33,554

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 17,766 (2018: 18,677).

5. Directors' emoluments

None of the directors received any remuneration from the Company for the period ended 26 January 2019 (2018: £nil). All of the directors were 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.

6. Interest receivable

	2019 £000	2018 £000
Interest on bank loans and overdrafts	15	-

7. Interest payable

	2019 £000	2018 £000
Interest on bank loans and overdrafts	23	43
Interest payable to Group undertakings	117,624	105,030
Total interest payable	117,647	105,073

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

8. Tax on profit

	2019	*2018*
	£000	*£000*
Current tax:		
UK corporation tax on profits of the financial period	110,272	115,397
UK corporation tax in respect of previous years	(2,545)	3,148
	107,727	118,545
Overseas tax	1,630	2,020
Total current tax	109,357	120,565
Deferred tax:		
Origination and reversal of temporary differences	(4,290)	(4,905)
Adjustments in respect of previous years	2,104	4,028
Tax expense reported in the Profit and Loss Account	107,171	119,688

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:

	2019	*2018*
	%	*%*
UK corporation tax rate	19.0	19.2
Expenses not deductible for tax purposes	1.2	0.9
Branch exemption	(0.3)	(0.3)
Deferred tax rate change	0.3	0.2
Tax under provided in previous years	-	1.5
Effective total tax rate on profit before taxation	20.2	21.5

In addition to the amounts charged to the profit and loss account, tax movements recognised in other comprehensive income were as follows:

	2019	*2018*
	£000	*£000*
Deferred tax:		
Movements on derivative instruments	13,473	(19,664)
Tax credit/(debit) in the Statement of Comprehensive Income	13,473	(19,664)

Additionally, tax movements recognised directly in equity were as follows:

	2019	*2018*
	£000	*£000*
Current tax:		
Share based payments	917	819
Deferred tax:		
Share based payments	(1,777)	2,963
Tax (charge)/credit in the Statement of Changes in Equity	(860)	3,782

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

8. Tax on profit (continued)

Deferred tax asset

	2019 *£000*	*2018* *£000*
Accelerated capital allowances	15,706	11,565
Revaluation of derivatives to fair value	(73)	13,401
Share based payments	5,170	6,568
Other temporary differences	81	2,144
	20,884	33,678

The movement in the financial period is as follows:

	2019 *£000*	*2018* *£000*
Opening position	33,678	10,174
Credited/(charged) to the Profit and Loss Account:		
Capital allowances	4,141	1,924
Share based payments	378	769
Other temporary differences	(2,063)	(1,816)
Recognised directly in the Statement of Comprehensive Income	(13,473)	19,664
Recognised directly in the Statement of Changes in Equity	(1,777)	2,963
Closing position	20,884	33,678

9. Dividends

	2019 *£000*	*2018* *£000*
Equity dividends of £600,000 (2018: £500,000) per share	600,000	500,000

10. Intangible assets

	Goodwill *£000*
Carrying amount	
At 26 January 2019 and 27 January 2018	2,496,368

Goodwill relates entirely to the acquisition of the business and net assets of NEXT Near East Limited on 1 February 2003 and is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 26 January 2019 was measured on the basis of value in use. As this exceeded carrying value, no impairment loss was recognised.

The key assumptions in the calculation are the growth in NEXT Brand sales and expected net margins achieved. In assessing value in use the most recent financial results and internal budgets for the next year were used and extrapolated in perpetuity with no growth assumed, and discounted at 8%.

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

11. Tangible assets

	Plant and vehicles £000
Cost:	
At 27 January 2018	1,331,476
Additions	74,724
Transfer to Group undertakings	50
Disposals	(70,995)
At 26 January 2019	1,335,255
Accumulated depreciation:	
At 27 January 2018	978,319
Provided during the financial period	94,966
Impairment	1,468
Transfer to Group undertakings	1
Disposals	(70,363)
At 26 January 2019	1,004,391
Carrying amount:	
At 26 January 2019	330,864
At 27 January 2018	353,157

At 26 January 2019 the Company had entered into contractual commitments for the acquisition of plant and vehicles amounting to £13,967,000 (2018: £11,596,000).

12. Stock

	2019 £000	Restated 2018 £000
Work in progress	4,618	2,931
Finished goods and goods for resale	495,025	462,297
	499,643	465,228

13. Trade and other receivables due after more than one year
Included within current assets is a deferred tax asset of £20,884,000 (2018: £33,678,000) which is due after more than one year, details of which can be found at Note 8.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

14. Trade and other receivables due within one year

	2019 £000	2018 £000
Online customer receivables	1,377,984	1,255,573
Less: allowance for doubtful debts	(165,543)	(138,721)
	1,212,441	1,116,852
Other trade receivables	12,117	14,429
Less: allowance for doubtful debts	(97)	(28)
	1,224,461	1,131,253
Amounts owed by Group undertakings	120,393	18,944
Amounts owed by related parties	206	268
Other receivables	10,988	10,996
Derivative financial instruments	11,229	12,220
Prepayments and accrued income	16,339	13,413
	1,383,616	1,187,094

Amounts due from Group undertakings are repayable on demand.

No interest is charged on Online customer receivables if the statement balance is paid in full; otherwise balances bear interest at a variable annual percentage rate of 23.9% at the year end date (2018: 22.9%). The carrying values of customer and other receivables equal their fair value.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on a very low credit risk characteristic, representing management's view of the risk, and the days past due. The expected credit losses incorporate forward looking information.

Expected irrecoverable amounts on balances with indicators of impairment are provided for based on past default experience, adjusted for expected behaviour. Receivables which are impaired, other than by age or default, are separately identified and provided for as necessary.

In the prior year, the impairment of customer receivables and other trade receivables was assessed based on the incurred loss model (IAS 39). Individual debtors which were known to be uncollectable were written off by reducing the carrying amount directly. The other debtors were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these debtors, the estimated impairment losses were recognised in a separate provision for impairment. The Company considered that there was evidence of impairment if any of the following indicators were present:

- default or delinquency in payments; or
- other indicators of financial difficulties for the debtor.

The allowance provision for impairment calculated under IAS 39 "*Financial instruments: Recognition and measurement*" and IFRS 9 "*Financial instruments*" at January 2018 are not materially different. Accordingly, there are no adjustments on transition.

Other receivables, Prepayment and accrued income do not include impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset.

Other financial assets comprise forward contracts which are used to hedge exchange risk primarily arising from the Company's overseas purchases. The instruments are primarily denominated in US Dollars and Euros.

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

14. Trade and other receivables due within one year (continued)

Ageing of Online customer and trade receivables:

	2019 £000	2018 £000
Not past due	1,212,861	1,131,632
0 – 30 days past due	47,964	42,382
31 – 60 days past due	11,753	9,676
61 – 90 days past due	6,049	5,038
91 – 120 days past due	8,974	6,860
Over 121 days past due	79,004	57,992
Otherwise impaired	23,496	16,422
	1,390,101	1,270,002

Movement in the allowance for doubtful debts:

	2019 £000	2018 £000
Opening position:	138,749	137,758
Amounts charged to the profit and loss account	58,353	28,304
Amounts written off as uncollectible	(25,548)	(23,288)
Amounts recovered during the financial period	(5,914)	(4,025)
Closing position	165,640	138,749

15. Cash at bank and in hand

	2019 £000	2018 £000
Cash at bank and in hand	111,251	32,314

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

16. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Bank loans and overdrafts	75,240	11,998
Trade payables	187,819	134,181
Amounts owed to parent undertaking	1,297,454	941,497
Amounts owed to other Group undertakings	73,660	71,884
Amounts owed to associates	33	-
Other taxation and social security	77,885	71,263
Corporation tax	106,992	110,956
Derivative financial instruments	10,797	91,044
Accruals and deferred income	110,341	117,590
Refund liability	6,112	7,055
Deferred turnover from sale of gift cards	75,358	78,076
	2,021,691	1,635,544

Notes to the Financial Statements

for the 52 week period ended 26 January 2019

16. Creditors: amounts falling due within one year (continued)

Creditors falling due after more than one year relates entirely to accruals and deferred income £nil (2018: £547,000).

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

Trade payables are not interest-bearing and are generally settled on 30 day terms. Accruals and deferred income are not interest-bearing. Amounts due to Group undertakings are repayable on demand.

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

17. Pension benefits

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

The Group's UK pension arrangements include defined benefit and defined contribution sections. The Original Plan and 2013 Plan are established under trust law and comply with all relevant UK legislation. Pension assets are held in separate trustee administered funds which have equal pension rights with respect to members of either sex. The defined benefit section was closed to new members in 2000 and over recent years the Group has taken steps to manage the ongoing risks associated with its defined benefit liabilities. The Group also provides additional retirement benefits through the SPA to some plan members whose benefits would otherwise be affected by the lifetime allowance.

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

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.

In August 2018, the Trustees of the 2013 Plan undertook a buy-in in respect of certain pensioner members of the 2013 Plan, with a premium paid of £94m. As at 26 January 2019 this buy-in policy has a value of £79m within the pension scheme assets.

Within the 2013 Plan, following a High Court ruling, a proportion of members' benefits are being equalised to address the inequalities that arise due to differing Guaranteed Minimum Pensions (GMP) entitlements for men and women. This equalisation has increased the IAS 19 liabilities of the Plan by £0.4m.

The IAS 19 valuation of the defined benefit obligation was undertaken by an independent qualified actuary as at 26 January 2019 using the projected unit credit method. The net surplus in the plan on an IAS 19 basis at that date was £125.0m (2018: net surplus £106.2m). Further details on changes to the scheme in the year and the actuarial assumptions used can be found in the financial statements of the Parent Company, NEXT plc.

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

17. Pension benefits (continued)

Defined benefit section
Members of the defined benefit section of the 2013 Plan contribute 3% or 5% of pensionable earnings. With effect from January 2018, employer contributions increased from 17.5% per annum to 31.3% per annum. Members of the defined contribution section contribute 3% or 5% of pensionable earnings which is matched by the Group.

Defined contribution section
The defined contribution section of the 2013 Plan was closed to new members during the year. Members elect to pay either 3% or 5% of their pensionable earnings which is matched by the Company. For death prior to retirement, a lump sum of three times the member's base salary at the previous April is payable along with the current value of the member's fund.

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 the 2013 Plan Actuary to the Trustees until April 2018. From May 2018, Mercer now act as actuary to the Trustees. The valuation showed a funding deficit on the Technical Provisions basis required by legislation of £70.2m at that date.

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

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

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

18. Commitments under operating leases

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

	2019 *£000*	*2018* *£000*
Within one year	1,057	1,522
After one year but not more than five years	2,154	2,030
	3,211	3,552

The Company has entered into operating leases in respect of vehicles, equipment and retail stores. These non-cancellable leases have remaining terms of between 4 months and 5 years.

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19. Contingent liabilities

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 Holdings 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.

20. Called up share capital

	Authorised	
	2019	*2018*
	£000	*£000*
Ordinary shares of £1 each	1	1

	Allotted, called up and fully paid			
		2019		*2018*
	No.	*£000*	*No..*	*£000*
Ordinary shares of £1 each	1,000	1	1,000	1

21. Equity-settled share based payments

Certain 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. A Long Term Incentive Plan (LTIP) is offered to directors and other senior executives below Board level 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. The Share Matching Plan (SMP) is an equity-settled scheme open to a small number of senior executives below Board level. Further details of all of these schemes are provided in the consolidated financial statements of NEXT Plc.

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.

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

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for the 52 week period ended 26 January 2019

21. Equity-settled share based payments (continued)

	2019 No. of options outstanding	*2019* Weighted average remaining contractual life (years)	*2018* No. of options outstanding	*2018* Weighted average remaining contractual life (years)
Exercise price range				
£10.81 – £38.25	824,995	1.9	998,121	2.8
£41.09	1,039,459	8.2	1,139,111	9.2
£41.12 - £43.48	656,207	3.5	719,421	4.3
£48.38	1,015,671	9.2	-	-
£51.84 - £59.76	764,610	6.6	894,950	6.9
£66.95 - £70.80	922,798	5.7	993,994	6.7
Outstanding at end of period	5,223,740	5.9	4,745,597	6.0

SMP options
SMP participants who invest a proportion of any annual cash bonus in NEXT plc shares can receive up to a maximum of two times the original number of shares they purchase with their bonus. Any matching is conditional upon achieving performance measures over the following three years.

The weighted average remaining contractual life of these options is 5.4 years (2018: 5.8 years). SMP options were exercised at different times in the financial period and the weighted average share price during this period was £43.12 (2018: £43.12).

Equity-settled LTIP awards
The equity-settled LTIP awards are to incentivise management to deliver superior total shareholder returns (TSR) over three year performance periods relative to a selected group of retail companies, and align the interests of executives and shareholders.

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

22. 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 financial period the Company entered into transactions in the ordinary course of business with other related parties as follows:

	2019 *£000*	*2018* *£000*
Transactions with Choice Discount Stores Limited (associate of NEXT plc):		
Sale of goods	4,497	4,578
Trade receivables	206	268

23. Ultimate parent company and controlling party

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