

next plc

ANNUAL REPORT AND ACCOUNTS

26 JANUARY 2019



NEXT is a UK based retailer which offers exciting, beautifully designed, excellent quality clothing and homeware.

NEXT distributes through three main channels:

- NEXT Online, with over 5 million active customers in the UK and overseas serving over 70 countries
- NEXT Retail, a chain of around 510 stores in the UK and Eire
- NEXT International Retail, with around 200 mainly franchised stores in 35 countries

NEXT Finance currently provides over 2.5 million UK customers with consumer credit to purchase online and in our stores

Contents

Strategic Report

- Chairman's Statement
- Chief Executive's Review
- Business Model
- Key Performance Indicators
- Risks and Uncertainties
- Viability Assessment
- Non-Financial Information Statement
- Employees
- Social, Community and Human Rights
- Environmental Matters

Governance

- Directors' Report Including Annual General Meeting & Other Matters
- Directors' Responsibilities Statement
- Corporate Governance
- Nomination Committee Report
- Audit Committee Report
- Remuneration Report
- Independent Auditor's Report

Group Financial Statement

- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Consolidated Balance Sheet
- Consolidated Statement of Changes in Equity
- Consolidated Cash Flow Statement
- Group Accounting Policies
- Notes to the Consolidated Financial Statements

Company Financial Statements

- Parent Company Balance Sheet
- Parent Company Statement of Changes in Equity
- Notes to the Parent Company Financial Statements

Shareholder Information

- Half Year and Segment Analysis
- Five Year History
- Glossary
- Notice of Meeting
- Other Shareholder Information

To view our range of exciting, beautifully designed, excellent quality clothing and homeware, go to www.next.co.uk

Investor website

We maintain a corporate website at www.nextplc.co.uk containing a wide range of information of interest to investors

Please note: you can register to receive electronic shareholder communications at www.nextplc.co.uk

This document contains Forward Looking Statements – see page [X].

FINANCIAL HIGHLIGHTS

TOTAL SALES *
Underlying continuing business **+2.5%**

Jan 19	£4.2bn
Jan 18	£4.1bn
Jan 17	£4.1bn
Jan 16 †	£4.1bn
Jan 15	£4.0bn

PROFIT BEFORE TAX
Underlying continuing business **-0.4%**

Jan 19	£723m
Jan 18	£726m
Jan 17	£790m
Jan 16 †	£821m
Jan 15 †	£782m

EARNINGS PER SHARE
Underlying **+4.5%**

Jan 19	435.3p
Jan 18	416.7p
Jan 17	441.3p
Jan 16 †	442.5p
Jan 15 †	419.8p

DIVIDENDS PER SHARE
Excluding special dividends **+4.4%**

Jan 19	165p
Jan 18	158p
Jan 17	158p
Jan 16	158p
Jan 15	150p

* Total sales are VAT exclusive sales and include the full value of commission based sales and interest income (refer to Note 1 of the financial statements).

† Sales, profit and EPS figures for Jan 16 are shown on a comparable 52 week basis.

‡ Underlying results for Jan 15 are shown pre-exceptional items.

Strategic report

3	Chairman's Statement
4	Chief Executive's Review
50	Business Model
52	Key Performance Indicators
54	Risks and Uncertainties
59	Viability Assessment
60	Employees
61	Social, Community and Human Rights
63	Environmental Matters

Chairman's Statement

The NEXT Group has delivered profits exactly in line with the guidance we issued in January 2019 and we are maintaining our guidance for the year ahead.

As anticipated, the year to January 2019 was challenging for NEXT as we continued to experience a structural change in our business, with sales continuing to transfer from our stores to online. Despite this, Earnings Per Share for the Group increased by +4.5% to 435.3p. We are proposing a final ordinary dividend of 110p taking the total ordinary dividend for the year to 165p, an increase of +4.4% on last year.

Total¹ Group sales were £4.2bn. Full price sales² were up +3.1%. Online³ full price sales increased by +14.8% and Retail full price sales declined by -7.3%.

Cash flow remained strong and we returned £541m to shareholders through a combination of ordinary dividends (£216m) and share buybacks (£325m). During the year we purchased 6.3m shares at an average price of £51.65 and reduced our shares in issue by 4.3%.

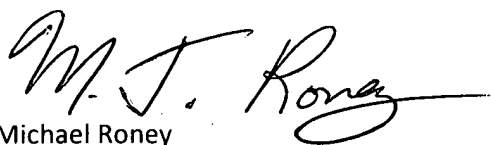
We have continued to invest in the business, spending £129m on stores, warehousing and systems. Net debt increased to £1,096m from £1,002m driven by the sales growth in nextpay, our online credit business. Net debt of £1.1bn remains well within our bond and bank facilities of £1.5bn and broadly aligned to our Online debtor book.

We have had a number of changes to the Board during the year. Michael Law, Group Operations Director who had been with NEXT for 23 years, retired from the Board at the 2018 AGM in May. Richard Papp, who has been with NEXT for 25 years, succeeded Michael on the Board as Group Merchandise and Operations Director.

Caroline Goodall, non-executive director and Chairman of the Remuneration Committee, retired from the Board on 1 January 2019. Tristia Harrison joined our Board in September 2018 as a non-executive director. Tristia is Chief Executive Officer of TalkTalk Telecom Group plc.

The strength of the Group is built on the hard work and dedication of all NEXT's people. I would like to thank them all for their contribution, especially for the determination and commitment they have shown during this demanding year.

Even though the High Street looks set to remain challenging our Online business continues to increase its contribution to sales and profit of the Group. Our central guidance for the year ahead is for Earnings Per Share to grow by +3.6%. The Board continues to be focused on building shareholder value through the delivery of long term sustainable growth in Earnings Per Share. Our core strategy remains unchanged; focus on our customers, products and profitability, continuing to build on the capabilities of our brand and Online Platform and returning surplus cash to our shareholders.



Michael Roney
Chairman
21 March 2019

¹ Total sales are VAT exclusive sales including the full value of commission based sales and interest income (refer to Note 1 of the financial statements).

² Full price sales are VAT exclusive sales, excluding items sold in our mid-season, Black Friday, end-of-season Sale events and our Clearance operations.

³ Formerly known as NEXT Directory.

Chief Executive's Review

DOCUMENT PURPOSE AND STRUCTURE

The intention of this report is to inform investors how the Company has performed in the previous year and give a clear understanding of how we plan to manage the business going forward. It is also written with colleagues in mind, to give them a better sense of our longer-term direction of travel, the challenges we face and the opportunities we aim to exploit.

As always, we give a detailed analysis of last year's financial performance along with a description of the key tasks for the coming year. We also set out our view of the consumer economy, with sales and profit guidance for the year ahead. In addition we have also stepped back from the detail to take a longer-term view of the Group's prospects. We have set out our understanding of the structural changes affecting our sector, how we think those changes are likely to evolve and how they might affect the long-term financial performance of NEXT. The document is divided into five parts as set out in the table below.

PART 1	FINANCIAL OVERVIEW p6	Headline summary of the year's financial performance.
PART 2	THE BIG PICTURE p7	Reflection on how the internet is changing the way we do business, the long-term threats and opportunities it presents to the Group and how we intend to move the business forward in an internet age.
PART 3	FIFTEEN-YEAR STRESS TEST p14	This section gives a detailed forward-looking fifteen-year financial scenario. It models how the business might perform in an environment of prolonged like-for-like Retail sales decline, along with the continued growth of our Online and Finance businesses. The output demonstrates the potential for the Group to deliver strong and accelerating cash flows over the next fifteen years.
PART 4	2018/19 FINANCIAL REVIEW p21	This section gives a detailed description of the Group's financial performance by business channels: (1) Retail, (2) Online, (3) Finance and (4) Other Activities. It also outlines the progress that we have made in delivering some of our operational initiatives in the year and how we see them progressing in the year ahead. It finishes with information about the Group's balance sheet, financing and cash flows.
PART 5	OUTLOOK FOR SALES AND PROFIT IN 2019/20 p44	This section gives our view on the outlook for the consumer in the year ahead along with our guidance for sales, profits and Earnings Per Share for the full year.

All information detailed within this review excludes the impact of the new accounting standard IFRS 16 "Leases".

CONTENTS

PART 1 FINANCIAL OVERVIEW	6
PART 2 THE BIG PICTURE	7
PART 3 FIFTEEN-YEAR STRESS TEST	14
<u>Step 1: Retail Sales and Costs Walk-Forward</u>	14
<u>Step 2: Projected Retail Cash flows</u>	17
<u>Step 3: Adding Online Cash Flows</u>	18
<u>Step 4: Combined Group Cash Flows</u>	19
<u>Stress Test Conclusion</u>	20
PART 4 REVIEW OF 2018/19	21
FINANCIAL OVERVIEW	21
NEXT RETAIL	22
<u>Sales and Profit</u>	22
<u>Retail Space</u>	23
<u>Portfolio Profitability and Long-Term Lease Commitments</u>	26
<u>Managing Retail Costs</u>	27
<u>Developing Our Stores as Part of Our Online Platform</u>	28
NEXT ONLINE	29
<u>Sales, Profit and Customers</u>	29
<u>Focus on Marketing and Systems</u>	31
<u>The Continued Development of LABEL</u>	32
<u>Development of our Overseas Business</u>	34
NEXT FINANCE	35
<u>NEXT Finance Profit and Loss</u>	36
<u>Credit Customer Base</u>	37
OTHER BUSINESS ACTIVITY	38
<u>Lipsy</u>	38
<u>International Retail and Franchise Stores</u>	38
<u>NEXT Sourcing</u>	39
<u>Non-Trading Activities</u>	39
COST INFLATION AND COST CONTROL	40
CASH FLOW	41
<u>Interest and Taxation</u>	41
<u>Capital Expenditure</u>	42
<u>Ordinary Dividends</u>	42
NET DEBT AND FINANCING	43
PART 5 OUTLOOK FOR SALES AND PROFIT	44
THE WIDER MARKET	44
SALES AND PROFIT GUIDANCE FOR THE YEAR AHEAD	45
<u>Sales Outlook for the Year Ahead</u>	45
<u>Profit Outlook For the Year Ahead</u>	45
<u>Outlook for Profits</u>	47
ACTION PLAN FOR THE YEAR AHEAD	47
APPENDIX 1	48
APPENDIX 2	49

PART 1

FINANCIAL OVERVIEW

NEXT Brand full price sales¹ were up +3.1% on last year and total sales² (including markdown sales) were up +2.6%. In line with the guidance we gave in our January 2019 trading statement, Group profit was £722.9m, down -0.4% on last year and Earnings Per Share (EPS) were up +4.5%.

TOTAL SALES	Jan 2019 £m	Jan 2018 £m	
Retail	1,955.1	2,123.0	- 7.9%
Online	1,918.8	1,672.4	+14.7%
Finance	250.3	223.2	+12.1%
Brand	4,124.2	4,018.6	+2.6%
Other ³	96.7	98.9	
Total Group sales	4,220.9	4,117.5	+2.5%
Statutory revenue	4,167.4	4,090.7 ⁴	

PROFIT and EPS	Jan 2019 £m	Jan 2018 ⁵ £m	
Retail	212.3	268.7	- 21.0%
Online	352.6	309.8	+13.8%
Finance (after funding costs)	121.2	111.9	+8.4%
Brand	686.1	690.4	- 0.6%
Other	35.8	28.9	
Recharge of interest to Finance	40.1	40.6	
Operating profit	762.0	759.9	+0.3%
Net external interest	(39.1)	(33.8)	
Profit before tax	722.9	726.1	- 0.4%
Taxation	(132.5)	(134.3)	
Profit after tax	590.4	591.8	
Earnings Per Share	435.3p	416.7p	+4.5%
Ordinary dividends per share	165.0p	158.0p	+4.4%

¹ Full price sales are VAT exclusive sales, excluding items sold in our mid-season, Black Friday, end-of-season Sale events and our Clearance operations.

² Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 1 of the financial statements). Prior year total sales have been reclassified, refer to Appendix 1.

³ Other includes: NEXT Sourcing external sales, Franchise and Lipsy non-NEXT business.

⁴ Prior year statutory revenue has been restated by £35.2m to reflect the transition to IFRS 15; these IFRS 15 adjustments did not impact total or full price sales, refer to Appendix 1.

⁵ Prior year profit by division has been reclassified, refer to Appendix 1. Group profit remains as reported.

PART 2

THE BIG PICTURE

The World Moves On

The internet has been good for consumers. It has given access to an unprecedented choice of goods along with delivery networks that are faster, more efficient and cheaper than ever before. It is a fact of life for those of us who are established High Street retailers that one way or another, less clothing, homeware, electrical goods and food are going to be sold on the High Street and more sold online. For NEXT, we believe that this market represents a long-term threat to our Retail business but potentially, a much larger opportunity for the Group as a whole.

This type of change is not unprecedented. The emergence of supermarkets in the 1960s heralded a profound change in the way people shopped for food. Old structures of supply and distribution were replaced with new and better ones. People no longer had to go to several shops to buy their food and the choice and value on offer to consumers was dramatically improved.

The Changing Shape of NEXT

The online retail revolution is very similar and is likely to result in similar levels of threats and opportunities for those of us who make a living in retail. No one knows what the High Street will look like in ten years, but one thing is certain: the people walking down it will be wearing clothes. And hundreds of thousands of people will be employed in the design, manufacture, distribution, marketing and fulfilment of that product.

We cannot decide how our customers will shop; our job is to adapt and serve them in whatever way they most want. To this end NEXT has changed dramatically over the last fifteen years. The business has moved from stores to internet, from UK only to international, from mono-brand to multi-brand aggregator. The table tells that story in numbers. It gives the percentage of our sales by channel (note that we have used Directory to describe what is now our Online business as in 2003 more than half of our Directory sales came over the phone!), our Directory sales by brand, and our Directory sales by location.

Sales by Channel	2003	2018	Directory Sales by Brand	2003	2018	Directory Sales by Location	2003	2018
Retail	77%	47%	NEXT	100%	78%	UK	100%	83%
Directory	23%	53%	3 rd Party Brands	-	22%	Overseas	-	17%
Total	100%	100%	Total	100%	100%	Total	100%	100%

The Cost of Change

The evolution required has not been easy nor is it without cost. Retail costs such as rent, rates and service charge have remained fixed as sales have fallen, whilst every additional order Online has increased variable costs, such as warehouse picking and delivery costs (page 46). Last year, every Pound of NEXT business that transferred from Retail to Online cost an additional 6p. In the short to medium term, the costs of structural change will persist.

These costs mean that we have had to work very hard to stand still and the year ahead looks like more of the same. Remaining positive in these circumstances might, at first, appear challenging. However, as the direction of travel becomes clearer, three important facts give us increasing confidence in the longer-term growth prospects for the Group:

1. Our stores remain a valuable financial asset and an increasingly important part of our Online Platform.
2. Whilst Retail costs remain fixed in the short term, they are likely to decline in the longer run – they are not an everlasting weight on the business.
3. Most importantly, the internet age offers the NEXT Group new and unexpected opportunities for growth as a UK aggregator and overseas brand.

Retail Shops in an Online World

The shift online is not quite as one-way as it might first appear. It costs us less to deliver Online orders to our stores than to a customer's home. So, we offer free delivery for orders collected in store, as against a charge of £3.99 for delivery to home. For many customers the store collection service is not only cheaper, it is also more convenient than staying at home to receive a delivery. As a result, around half of our Online orders are delivered to our stores. These orders, though smaller in value than orders delivered to home, represent one third of our Online turnover.

Shops are even more important in facilitating Online returns. Over 80% of all our Online returns come back through our stores. So, for the moment, our Retail estate and staff remain central to the service we offer Online. The development of our stores as part of our Online Platform will remain a critical part of our stores work-programme for the year ahead. The other priorities for our stores will be:

- The management of Retail costs and efficiencies to ensure that our Retail costs decline in line with reducing sales (page 27).
- The effective renegotiation, re-location or closure of stores as and when their leases come up for renewal (pages 15 and 24).
- The maintenance of retail standards and stock control to ensure Retail sales losses are minimised (page 28).

How Much Space Do We Need?

We are often asked "how much less space will you need in the future?" It is the wrong question. We do not have too much space, we have too much rent, rates and service charge. The amount of Retail space we trade in the future will depend on whether the cost of retail space adequately reflects the reality of retail trading conditions. Our guess is that there will be shops in fifteen years' time, but they will be fewer in number, possibly smaller and MUCH less expensive.

No one knows how far retail rents will fall but recent evidence is encouraging. Last year we negotiated a rent reduction⁶ of -29% on the leases that we renewed; we experienced a reduction of -25% on leases renewed in the previous year and we expect similar reductions in the year ahead (page 25). Our average lease term⁷ is 6 years. A more benign outlook for our rental costs (which longer term will feed through into lower rates as well) has important implications for the long-term viability of our store portfolio and is considered later in our fifteen-year stress test.

However, the impact on the High Street is not the only effect the internet is having on our industry. There is another, potentially more profound change taking place: the internet has also dramatically reduced the barriers of entry to clothing and homeware markets.

The Wider Effects of the Internet - Reducing Barriers to Entry

Twenty years ago, those aspiring to create a new brand would have to invest a large amount of time and capital in developing a store network, warehouses, retail systems and distribution networks. None of these costs directly related to the origination of their product – the task at the heart of any fashion brand.

To a large extent the speed at which a brand was able to expand its physical space determined the rate at which it could grow. That allowed incumbent retailers (like NEXT) to defend large market share through owning sections of the nation's finite prime retail selling space. The other side of the same coin meant that consumers who lived in areas with few shops had little choice as to what they could buy.

In an internet age, a good buying, design and sourcing operation hooked into the right distribution channel (for example, through NEXT's LABEL business) can reach millions of consumers with virtually no investment in a physical infrastructure. And customers living in remote parts of the country have access to the same choice of goods available to those living near to London's Oxford Street.

The Threat

The erosion of the advantage NEXT enjoyed through occupying prime retail space represents a significant challenge to our Retail business, and we believe it will be hard for the Brand to maintain UK market share in this new world.

The Opportunities

However, as fast as one door closes others open. Specifically, the internet opens up two significant opportunities for the Group: (1) the opportunity to leverage our online assets and build a powerful aggregation Platform in the UK and Eire and (2) the ability to build our brand in overseas markets. Each will be dealt with in turn.

⁶ Rent reductions include the release of any unspent capital contributions over the term of the lease.

⁷ The lease term is the time to either, the end of the lease or any option to terminate the lease.

The NEXT Online Platform

The scale of our Online business in the UK has allowed us to develop an increasingly effective Platform for selling clothing and homeware in the UK and Eire. At the heart of our Platform are eight million square feet of highly mechanised warehousing capable of handling flat packed, hanging, palletised and furniture items, seven wholly owned distribution depots in addition to 500 stores. In the year ahead we are looking to increase the reach of our Platform through gaining access to stock in our partners' warehouses (page 33).

But we are beginning to think of the distribution network as only one part of five Platform layers, each of which we aim to improve in the years ahead. The other layers are: Digital Marketing and Website (page 31), UK Customer Base (page 31), Finance credit business (page 35) and Overseas customer base (page 35).

The Growth of LABEL

We have taken advantage of the increasing power of our Platform to sell other brands through our third-party branded business, LABEL (including Lipsy) which now turns over £400m and delivers a profit of £66m (page 32).

Should we Compete with Ourselves?

Inevitably some of the third-party brands we sell compete with our own products. We have consciously accepted this competition as the price of building a much larger business and securing the future of the Group. Our view is that we cannot shield customers from other people's products online, eventually they will find them, one way or another. Preventing our competitors trading on our website could, at best, slow down the advance of competition but it only puts off the inevitable.

We have taken the view that if you cannot beat them, join them. In doing so we can secure the long-term future of the Group and increase the scale of our Platform, in a market where scale and choice are critical.

Objectives for NEXT Platform

We have three objectives for the NEXT Online Platform:

- To be our customer's **first choice** online retailer for clothing and homeware.
- To be the **most profitable** third-party route to market for our partner brands.
- To provide a **quality of service** that both we and our partner brands can be proud of.

The first of these objectives is all about the quality of our Online service and breadth of our product offer. The second objective is more important than it might at first appear. We recognise that in this new world more and more power will lie with the originators of product – they will be able to choose their route to market and there will always be more than one. If we are successful in the long run it can only be if our collaboration is mutually beneficial.

Of course, we have to make a profit, financial discipline is at the heart of everything we do. We have managed our LABEL net margins to 16%, high enough to withstand the inevitable vagaries of the fashion world, but not so Registered in England & Wales - Company Number: 04412362

high as to be uncompetitive. Once we have made our margin we give everything else back to our customers and partners. Last year we achieved a number of efficiencies and as a result reduced the commission we charge our partners; if we achieve more savings we intend to pass them on.

The Opportunity Overseas

The internet has given the NEXT brand the chance to sell our products in markets where we were either unable to open profitable shops or where we had to rely on franchise stores offering a very limited selection of goods at a significant premium to UK prices.

In overseas markets NEXT is a challenger brand and in most major markets we can now offer our whole range at prices commensurate with the UK. Low barriers of entry alongside the ability to tap into overseas third-party platforms have allowed us to make good progress in developing a profitable and fast growing £360m overseas Online business (page 34).

Perhaps our increasing traction overseas is evidence that the internet is also breaking down the geographical fashion boundaries. Little by little the world's fashion markets appear to be becoming less distinct – bad news for competition in our home markets but good news for us overseas.

Fifteen-Year Stress Test

We have asked ourselves what the combination of Online opportunities and negative Retail like-for-likes might mean for the long-term financial performance of the Group. Last year we issued a fifteen-year stress test modelling the cash flows from our Retail business in an environment of -10% compound like-for-like Retail sales. We have updated this model in the following ways:

- Maintaining the -10% decline in like-for-like Retail sales.
- Accounting for the improving outlook for retail rent, rates and staffing costs.
- Layering on the potential cash flows from the compound annual growth of +7.5% in Online business (including Overseas).

The model implies Group Sales growth over the period of +3.0% and cash generation⁸ of around **£12bn** over the next fifteen years, in addition to growing our Online nextpay debtor book by another **£900m**. This revised stress test is set out in detail in the following section (page 14).

Not a Plan or a Forecast

It is important to emphasise that the fifteen-year stress test is *not* a plan or a forecast. No one can predict the future and the numbers are very unlikely to turn out exactly as modelled. They depend on too many unknowns, not least the quality of our execution and continued innovation (which, by definition, cannot be foreseen).

A Way Through the Woods

Nonetheless the model is important because it demonstrates that, using a reasonable set of sales and cost assumptions, NEXT's economic structure allows its profitable transition into the online world.

It shows what is *possible* within the constraints of our balance sheet, current lease structures, warehousing and distribution capacities, infrastructure costs and likely changes to our revenue cost base *if* we continue to see a migration online similar to that which we are currently experiencing.

It is not necessarily *the* path we will follow but it is *a* way through the woods: a realistic scenario under which we might deliver a growing, profitable and potentially world-class online clothing and homeware business. And at the same time generate around £12bn of pre-tax cash flow over fifteen years.

Importance of Execution

Having a cogent vision is comforting, but ultimately only a small part of the battle. Investors should be sceptical of any long-term business model if it is held out as a plan. Other than the obvious objection that forecasting growth rates into the distant future is intrinsically uncertain, there are two more important reasons for investors to be wary of grand plans:

- Future success will depend entirely on the quality of execution achieved by the business, not least the continued delivery of excellent clothing and homeware ranges.
- If we are to achieve anything like the sales growth anticipated in the model, we will need to continue to innovate: to develop new products, services, systems, distribution channels and more.

By definition future innovation cannot be foreseen today. What is important is maintaining an environment and culture which encourages *evolution* and exploits innovation at every level.

⁸ Cash generation is pre-tax and pre-shareholder distributions, but after capital expenditure and funding the increase in Online debtors.
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Evolution – A way of working

Evolution means much more than gradual change, it is the process of improvement that comes from a myriad of independent experiments, most of which fail but some of which succeed; and in doing so produce something better than that which has gone before.

Plenty of good ideas spring from leadership discussions but many more come from initiatives and trials conceived by colleagues at every level of the organisation - each working to improve their part of our business.

Business ideas which have had a profound effect on the future of the Group have all started with small initiatives. A trial to sell some third-party sportswear in 2006 evolved into NEXT's £400m LABEL business, a low-cost website delivering stock to Spain spurred the growth of NEXT's International business.

What we are and may become is dependent on many small decisions: new businesses, cost saving ideas, partnerships, services, products, operating efficiencies, marketing tactics and training programmes. Many ideas have come to nought, but the cost of small failures is low (apart from some damaged pride!) and the rewards of their success is high. Fostering, encouraging and directing a constant effort to experiment with new business ideas, move on quickly if they fail and, more importantly, rapidly exploit them if they succeed.

Lunch, NEXT Head Office, Leicester

PART 3

FIFTEEN-YEAR STRESS TEST

The Nature of this Model

This model gives the *possible* performance of the NEXT Group over the next fifteen years in terms of sales and cash flow. It seeks to model the financial consequences of continuing a -10% fall in Retail like-for-like sales. This is set alongside the continued growth of our Online business in the UK and overseas. The model is in four steps, each of which is explained in turn:

Step 1: Retail sales and costs walk-forward

Step 2: Projected Retail cash flows

Step 3: Adding Online cash flows

Step 4: Combined Group cash flows

It is important to re-emphasise that this is a scenario **not a forecast, a plan or guidance**. Its purpose is to test the economic structure of the Group in an environment of rapid change rather than give a forecast of how the future is actually going to pan out.

STEP 1: RETAIL SALES AND COSTS WALK-FORWARD

Retail Sales Assumptions

We have assumed that like-for-like Retail sales decline at **-10% per annum** for the next fifteen years. On a store by store basis we have assumed that this decline is mitigated by some transfer of trade from other store closures.

Retail Closure Assumptions

We have assumed that we will close a store once it gets close to making a net loss at branch level (store cash profit before central overheads). At lease renewal we have assumed the following outcomes:

Store Profitability	Assumed Outcome at Lease Renewal
Profitability > 20%	Renew for 5 years at market rent
Profitability > 15% and <20%	Renew for 3 years at market rent
Profitability > 4% and < 15%	Hold over* at passing rent
Profitability < 4%	Close

*When stores are held over at passing rent, the retailer carries on paying the historic rent (or in some cases lower) and both landlord and tenant have the right to terminate the lease after a short notice period.

Transfer of Retail Trade on Closure – Assumptions

When we close stores we tend to see some of their sales migrate to other nearby NEXT shops. Last year we observed an average transfer of trade from closing stores of 25%. Unsurprisingly, this number corresponds to the levels of cannibalisation we usually observe when opening new stores.

The model accounts for transfer of trade on a store by store basis depending on the number and proximity of other local stores. The table below sets out the level of sales transfer we anticipate in different circumstances. For example, if there is only one store within five miles, we have assumed a Retail sales transfer of 20%. For clarity, if there is a store within five miles and another within ten miles, we have made the simple assumption that all the 20% transfer goes to the nearest store and none to the farther one.

Transfer of Trade Assumptions ⁹	Sales transfer %
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⁹ We have assumed lower travel distances for stores in central London with transfer thresholds at 1.5 and 3 miles.
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2 Stores within 5 miles	25%
1 Store within 5 miles	20%
1 Store within 10 miles	10%
No Stores within 10 miles	0%

We have not assumed any transfer of trade from Retail to Online when a store closes, we have assumed that 50% of store collections are transferred to stores within 10 miles and that the balance of collections switch to being delivered to home. This last assumption may be optimistic and in reality, some sales might be lost if customers are unable to collect and return their goods in local stores. This issue is addressed by altering the model to keep some loss-making stores open in order to service Online orders and returns (page 17).

Retail Rent Assumptions

We have assumed that during the term of any lease the rents will not come down. Understandably, landlords will not unilaterally agree to a rent reduction until a lease expires (or a break clause is exercisable). However, at lease break we are currently experiencing significant rent reductions where we are able to agree a new lease. Last year we agreed rent reductions of -29% in the stores where we agreed a new lease and we expect similar rent reductions on renewals agreed in the year ahead, with new lease terms averaging around five years in duration (page 24).

We have assumed that today's market rent (i.e. the rent which could be achieved for a new lease) is 25% lower than the rent we are currently locked into for all leases more than three years old. We have further assumed that, in an environment of -10% decline in like-for-like sales, market rents would continue to decline by a further -5% per annum after 2022.

The table below shows how the implied market rent would vary for a store indexed to a current rate of 100.

Year end January	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Current rent	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Market rent	75	75	75	71	68	64	61	58	55	52	50	47	45	43	41
% var per annum				-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Total % var	-25%	-25%	-25%	-29%	-32%	-36%	-39%	-42%	-45%	-48%	-50%	-53%	-55%	-57%	-59%

Where we have renewed leases in the model, we have assumed that a store's rent will move to its market rent (as calculated by the table above) upon renewal.

At first sight the anticipated falls in rent towards the outer years of the model look aggressive, but remember they are based on the assumption that like-for-like sales continue to fall at -10%. If sales reductions ease, then so should the decline in rent.

Alternative Use Rental Values

In the light of such extreme rental declines, the question then arises as to whether alternative use of the space (for residential, office space or other) would provide a rental floor, beneath which retail rents could no longer fall. Our analysis indicates that this floor is a long way below the levels of rent we are currently paying in most locations (though central London would be a notable exception).

In most prime retail locations, we pay significantly more per square foot than could be achieved through rents for residential, office or warehousing. In addition, the cost of converting space from one use to another pushes the rental floor even lower.

For example, in one of the UK's major cities, NEXT currently pays a rent of £1.7m per annum for a large prime High Street store. If the building were converted to office space, we estimate it could achieve a rent of £1.2m as office space or £1.0m as residential. However, the cost of converting the building to offices would be in the order of £20m (including any incentives paid to the occupant) without accounting for any void rent during construction. The cost of financing the additional capital, at a rate of 3.5%, would be £700k per annum. So, the rental floor for the building as office space, after accounting for the capital costs of conversion, would be nearer £500k. This example is set out in the table below:

Location	Current Rent	Rent for Office Use	Cost of Conversion	Capital Cost at 3.5%	Net Rent after Cost of Capital
City Centre	£1.7m	£1.2m	£20m	- £700k	£500k

In many of our other trading locations, such as retail parks, there is no demand for offices and better land is available for housing, so the alternative use values are even lower. Therefore, in most locations, it will be the highest paying retailer that determines rental levels for many years to come.

Important Caveat

It should be stressed that the above rental scenario is over simplified: the net rent after capital would not necessarily be the same as a rental floor. A landlord may well choose a lower (but more secure) alternative rent to a higher retail rent. In addition, rental values for offices and residential may rise over the next fifteen years. However, the exercise gives a sense of the *order of magnitude* by which rents might fall if Retail like-for-like sales persist at -10%.

Rates Assumptions

Rates have been modelled to fall in line with rents based on rates revaluations in the financial years ending January 2022, 2025, 2028 and 2031. The decline in rates is modelled subject to existing rules on transition relief and would be phased in over the period up to the next rates revaluation. We have assumed no change to Uniform Business Rates.

Retail Wage Cost Assumptions

Wages are assumed to decline broadly in line with sales. It has been assumed that twenty percent of the store wage bill will remain fixed (for example management cover and the minimum number of people required to open a store safely). So, the model assumes that 80% of wages will decline in line with sales. The high level of variability is made possible by the fact that increasing numbers of store-based staff are required to handle Online collections and returns. As a result of the combined effects of Online staffing requirements and cost saving initiatives, we have managed to reduce the cost of wages in our stores in line with sales over the last three years (i.e. wages have been 100% variable with sales in the last three years).

Central Overheads

Most of our central overheads are shared between Online and Retail. Our buying, quality, sourcing, finance, HR, and systems teams serve both businesses. It is assumed that these costs are divided between the businesses in proportion to their turnover. So, as long as our total sales move forward, these costs will come down in our Retail business in direct proportion to sales declines.

STEP 2: PROJECTED RETAIL CASH FLOWS

Preliminary Output, Store Numbers and Cash Flows

The left-hand graph below shows the cash flow from our branches by year for the next 15 years after accounting for closures, transfer of trade and reductions in rent, rates and other costs. In year fifteen 150 stores remain and cumulative cash flow from the branches over the period is £400m. In the final year the model assumes that the Retail business will make a -£3m cash loss.

It can be seen from the model that whilst fifteen years of -10% like-for-like sales declines in our stores is uncomfortable, the Retail business does not represent a burden or hindrance to our Online business. In fact, it provides a network of stores that remain important to Online sales.

The effect of keeping 120 stores open to service Online sales

The projected reduction in stores poses a potential threat to Online sales, as we would lose many of our Online collection and return locations. So, we have assumed that we would keep open a further 120 loss-making Retail Stores in order to maintain Online store services in key locations. This takes the store numbers up from 150 to 270 and ensures that we maintain coverage at more than 80% of 2018's collection volumes.

The cost of carrying these stores is a -£25m cash loss per annum in the final year. In reality, we would probably relocate these stores to smaller less expensive collection shops with a very limited retail offer, but for the purposes of this model we have simply accepted the £25m cost. The Retail cash flows, adjusting for the cost of carrying loss making stores, is set out in the right-hand graphic above. As can be seen the cumulative cash flow has fallen by £140m to £260m.

STEP 3: ADDING ONLINE CASH FLOWS

This section combines the Retail cash flow scenario with a projection of what might happen to Online sales and cash flows in the period. The assumptions used and cash flow impact are set out in the paragraphs below.

Online Sales Growth Assumptions

The central scenario sets out the likely financial performance of the Group if current sales trends continue, namely:

- The continued growth in Online sales of NEXT branded goods in the UK.
- The continued growth in the sales and participation of our third-party branded business, LABEL.
- The continued growth of our overseas Online business (which is mainly NEXT branded goods but includes a small element of third-party branded sales).

The table below sets out the annual sales growth modelled for each year for each constituent part of the business over the next fifteen years. The UK Retail line shows the decline of total sales *including* the effect of closures and transfer of trade. The last column gives the effective compound annual growth (CAGR) over the fifteen-year period.

CAGR	Years 1-5	Years 6-10	Years 10-15	15-year CAGR
UK NEXT Online	+5.7%	+4.5%	+4.2%	+4.8%
UK LABEL	+14.6%	+6.9%	+4.1%	+8.4%
Total Online UK	+8.4%	+5.4%	+4.2%	+6.0%
UK Retail	- 10.1%	- 13.7%	- 13.5%	- 12.4%
Total UK	+0.0%	+0.7%	+2.2%	+1.0%
Overseas	+18.1%	+11.5%	+7.3%	+12.2%
Group Total	+2.4%	+3.1%	+3.6%	+3.0%

Online Cost Assumptions

We have taken a much simpler approach to modelling Online costs and have assumed no economies of scale as Online sales grow. We have broadly maintained the net margins of each channel within the Online business, as set out in the table below:

Online channel	Net Margin % after all central and fixed costs
NEXT UK	20%
LABEL UK	16%
Overseas	16%

Finance

We have assumed compound annual growth rate of +4% in our consumer debt, which is two thirds of the growth we are modelling for our UK Online business.

Total cash invested in our Online nextpay debtor book over the course of the fifteen-year period is modelled at £900m. We expect the return on capital employed (after funding costs) to be maintained at around 11%.

Group Capital Expenditure

Our model allows for ongoing investment in Online infrastructure and maintenance capex for our stores. The result is that the model anticipates an average capital spend of £110m per annum for the Group over the next fifteen years. This means that capital expenditure broadly matches Group depreciation. This run rate is expected to be lower than current levels because our Online business demands less capital investment per pound of sales than a store-based business.

STEP 4: COMBINED GROUP CASH FLOWS

Over the fifteen-year period, the model generates cash for the Group amounting to £12bn¹⁰. The cash flow in the final year is £1.1bn.

Summary of Key Inputs and Outputs

KEY INPUTS

SALES ASSUMPTIONS

Retail LFLs	-10%
NEXT UK Online CAGR	+4.8%
LABEL CAGR	+8.4%
Online Overseas CAGR	+12.2%
Transfer of trade to a store within five miles	20%

COST, MARGINS AND CAPEX

% of store wages that vary with sales	80%
2020 market rent as % of current rent	75%
Market rent decline beyond 2022	-5%
Average Group CAPEX per annum	£110m
Online net margins by channel	In line with 2018/19

KEY OUTPUTS

Cumulative cashflow over 15 years	£12bn ¹⁰
Fifteen-year increase in debtor book	£900m
Year 15 Group cashflow	£1.1bn
Group fifteen-year CAGR	3.0%

¹⁰ Rounded to the nearest one billion.

STRESS TEST CONCLUSION

In summary, annual declines of -10% in like-for-like sales in our Retail business, combined with CAGR of +7.5% in our Online business looks likely to deliver cash generation of around £12bn over the next fifteen years, with cash generation in the final year being in the order of £1.1bn.

In all probability, many of the assumptions about both sales and costs are likely to be incorrect. Nonetheless, the exercise demonstrates that a radical re-structuring of the Company's cost base and sales profile is possible over time. Furthermore, the Company would at the same time continue to generate significant positive cash flows.

PART 4

REVIEW OF 2018/19

FINANCIAL OVERVIEW

NEXT Brand full price sales¹¹ were up **+3.1%** and Brand total sales¹² (including markdown sales) were up **+2.6%** on last year. Group profit before tax was down **-0.4%** and Earnings Per Share (EPS) were up **+4.5%** on last year.

We are proposing an ordinary dividend of 110p per share, making **165p** in total for the year, which is up **+4.4%** on last year.

TOTAL SALES	Jan 2019	Jan 2018	
	£m	£m	
Retail	1,955.1	2,123.0	- 7.9%
Online	1,918.8	1,672.4	+14.7%
Finance	250.3	223.2	+12.1%
Brand	4,124.2	4,018.6	+2.6%
Other ¹³	96.7	98.9	
Total Group sales	4,220.9	4,117.5	+2.5%
Statutory revenue	4,167.4	4,090.7 ¹⁴	

PROFIT and EPS	Jan 2019	Jan 2018 ¹⁵	
	£m	£m	
Retail	212.3	268.7	- 21.0%
Online	352.6	309.8	+13.8%
Finance (after funding costs)	121.2	111.9	+8.4%
Brand	686.1	690.4	- 0.6%
Other	35.8	28.9	
Recharge of interest to Finance	40.1	40.6	
Operating profit	762.0	759.9	+0.3%
Net external interest	(39.1)	(33.8)	
Profit before tax	722.9	726.1	- 0.4%
Taxation	(132.5)	(134.3)	
Profit after tax	590.4	591.8	
Earnings Per Share	435.3p	416.7p	+4.5%
Ordinary dividends per share	165.0p	158.0p	+4.4%

¹¹ Full price sales are VAT exclusive sales, excluding items sold in our mid-season, Black Friday, end-of-season Sale events and our Clearance operations.

¹² Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 1 of the financial statements). Prior year total sales have been reclassified, refer to Appendix 1.

¹³ Other includes: NEXT Sourcing external sales, Franchise and Lipsy non-NEXT business.

¹⁴ Prior year statutory revenue has been restated by £35.2m to reflect the transition to IFRS 15; these IFRS 15 adjustments did not impact total or full price sales, refer to Appendix 1.

¹⁵ Prior year profit by division has been reclassified, refer to Appendix 1. Group profit remains as reported.

NEXT RETAIL

SALES AND PROFIT

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-like¹⁶ sales of -8.5%.

£m	Jan 2019	Jan 2018	
Total sales	1,955.1	2,123.0	- 7.9%
Operating profit	212.3	268.7	- 21.0%
Net margin	10.9%	12.7%	

The table below sets out significant Retail margin movements by major heads of costs.

Net margin on total sales to January 2018		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%
Warehousing & distribution	Falling sales increased costs as a percentage of sales.	- 0.6%
Net margin on total sales to January 2019		10.9%

Anticipated Retail Margin in the Year Ahead

As set out in our January Trading Statement we are budgeting for full price sales to fall by -8.5%. Based on this guidance, we expect Retail net margin in 2019/20 to reduce from 10.9% to around 7.5%, as occupancy and overhead costs will not reduce at the same rate as sales.

¹⁶ Like-for-like sales is the change in sales from stores which have been open for at least one full year.
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RETAIL SPACE

Net Retail space increased by 23,000 square feet in the year, taking our portfolio to 8.3m square feet. This is marginally lower than the guidance given in September, due to the delay of one new store which opened just after the year end and one closure brought forward from 2019. The table below sets out the change in store numbers and space for the full year.

	Store numbers	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
January 2018	528	8,029	242	8,271
New mainline stores	+2	+141	+65	+206
Mainline closures	- 15	- 110	- 2	- 112
Clearance closures	- 8	- 71	-	- 71
January 2019	507	7,989	305	8,294
Change in square feet		- 40	+63	+23
Change %		- 0.5%	+26.2%	+0.3%

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.

New space

Branch profitability¹⁷ 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.

Plymouth, Marsh Mills

¹⁷ Branch profitability is defined as profit before central overheads and is expressed as a percentage of VAT inclusive sales.
Registered in England & Wales - Company Number: 04412362

Store Closures

The table below sets out the store closures in the year to January 2019 with their annualised profit at the point of closure.

	No. of stores	Branch profit £m	Branch profit %
Mainline closures	15	3.2	13%
Clearance closures	8	2.9	16%

As detailed in our Half Year Results, the decision to close eight Clearance stores in the year is in response to: (1) lower levels of Sale surpluses and (2) the success we are having clearing surplus stock Online.

A breakdown of the mainline store closures is shown below. The stores we closed with higher profitability were those where we anticipated (and subsequently experienced) high levels of sales transfer into other local stores.

Mainline store closure by reason	No. of stores	Branch profit £m	Branch profit %
Trade transfer expected to offset closure losses	7	1.8	14%
Forced closure (Stansted)	1	0.5	24%
Low profitability closures	7	0.9	9%

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 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.

Lease Renewals

This year we renegotiated and renewed lease terms in 28 stores. The table below summarises the reductions in occupancy costs as a result of the lease renewals. In our Half Year Results, we had forecast renewals for 33 stores; the remaining 5 are still under negotiation.

28 store renewals 2018/19 £m	Before renewal	After renewal	
Rental costs ¹⁸	9.3	6.6	-29%
Concession income	-	-0.2	
Net rent	9.3	6.4	-31%
Net rent/sales (VAT inc.)	9.4%	6.5%	
Rent-free incentive/capital contribution used for store upgrade ¹⁹		£5m	
Average lease term ²⁰		5 years	
Average branch profitability (before central overheads)		26%	

¹⁸ Rental costs include the release of any capital contributions or rent-free incentives, over the term of the lease, which will not be used to refit the stores being renewed. Excluding the release of surplus capital contributions, rent would have decreased by -24%.

¹⁹ This is a cash contribution or rent free period provided by the landlord and spent on upgrading the store.

²⁰ Average lease term shown is to the earlier of the lease end or break clause.

Future Lease Renewals

There are a further 37 store leases currently in the process of being renegotiated, where the lease has either expired already or is reaching the end of its term in 2019. We expect to achieve similar rent reductions to those seen in 2018. If we cannot agree lease terms, they will either be held over at the current passing rent (pending negotiation) or will be closed. Our forecast for lease renewals during 2019 is summarised in the table below.

37 store renewals 2019/20 £m (e)	Before renewal	After renewal	
Rental costs ²¹	13.8	10.1	- 27%
Concession income	-	- 0.5	
Net rent	13.8	9.6	- 30%
Net rent/sales (VAT inc.)	9.9%	6.9%	
Rent-free incentive / capital contribution used for store upgrade ²²		£4.5m	
Average lease term ²⁰		4.5 years	
Average branch profitability (before central overheads)		26%	

Our *general* approach to lease renewals is that we will renew a lease in any of the three following circumstances:

- A store is highly profitable (e.g. making >20% branch profitability) and the lease commitment is not too onerous (i.e. up to 5 years).
- Where store profitability is low (e.g. 10%-20%) but the renewal period is very short (i.e. 6 months to 3 years).
- Where store profitability is above 4% but below 10% and the landlord is content for us to hold over at the existing or lower rent. Holding over means after the lease expiry, NEXT can give notice to terminate its occupation at will and exit subject to a short notice period.

The only caveat to the above approach is that sometimes it may be advantageous to shut a profitable store if the transfer of trade is expected to be high enough to offset any losses from closure.

Concessions

In the year we have increased annualised concession income by £4m, from £8m to £12m. The space occupied by concessions increased by +26% to 305,000 square feet representing 3.7% of our total trading space.

²¹ Rental costs include the release of any capital contributions or rent-free incentives, over the term of the lease, which will not be used to refit the stores being renewed. Excluding the release of surplus capital contributions rent is forecast to decline by -25% in 2019/20.

²² This is a cash contribution or rent free period given by the landlord and spent on upgrading the store.

PORTFOLIO PROFITABILITY AND LONG-TERM LEASE COMMITMENTS

Lease Commitment Profile

The average lease term remaining (to the nearest break clause) on our current portfolio of stores is 6 years and 78% of our rental liabilities will have expired within the next 10 years. The expiry profile of our store portfolio's lease commitments is set out in the graph below. More than half our leases (by value) will expire, or can be terminated, within the next 4.9 years. This compares to 5.2 years for the same measure this time last year.

Portfolio Profitability

Despite falling like-for-like sales, the vast majority of our stores remain very profitable.

The left-hand table below summarises our store portfolio in different profitability bandings as at January 2019. As can be seen, 93% of turnover remains in stores making more than 10% branch profitability (before central overheads). The right-hand table shows the same information projected forward one year, based on our central guidance.

January 2019		January 2020 (e)	
Branch profitability	% of turnover	Branch profitability	% of turnover
>20%	59%	>20%	51%
>15%	81%	>15%	73%
>10%	93%	>10%	89%
>5%	97%	>5%	96%
>0%	98%	>0%	98%

MANAGING RETAIL COSTS

The management of costs remains a huge focus for our Retail teams and last year we saved c.£5m across various initiatives in Retail. These savings were achieved by a combination of the following:

- Technology enabled improvements to in-store stock management processes.
- Right-sizing of our management structure to account for today's levels of sales (mainly achieved through natural management turnover).
- Savings to our delivery schedule to account for lower unit volumes.

As usual, cost savings have come from a large number of small initiatives rather than any single project. The management of costs and the search for innovative ways to operate more efficiently remain priorities for our Retail teams.

In the year ahead, we have budgeted a further £3m of cost saving initiatives, with an additional £2m of potential savings also identified.

The work done in the branches to process Online collections, returns and orders is now having a meaningful impact on our ability to manage our Retail wage costs down in line with sales. In the past the minimum crews required to open a shop represented a considerable fixed cost for the Retail business; if sales declined the numbers required at the quietest times of the day were not able to fall. In today's world some of the hours not needed in Retail are now required for Online work and so make good use of surplus Retail hours at the times of day our Retail sales are lowest. Online work now accounts for 12% of the work done in stores, in the quietest hour of the day (09:30-10:30) Online work accounts for around 15% of store wages.

We remain acutely conscious that cost savings in our branches can be counter productive if they impair the quality of service we offer our customers or reduce the speed and efficiency with which we can replenish our stores.

Last year we made one such mistake and cut our store deliveries back too much; this affected the timely replenishment of our stores and led to processing backlogs in the branches. In the year ahead we are budgeting to add back some of the deliveries we cut last year and re-organise our store staff rotas. The combined effect will be to improve our shop floor stock availability and standards. Additional deliveries will also have the effect of improving the speed by which customer returns can get back to our warehouse – a major focus for the year ahead.

DEVELOPING OUR STORES AS PART OF OUR ONLINE PLATFORM

2018 Projects

During the year we have made the following improvements to further integrate our Retail stores and Online businesses. The aim is to maximise the value of the stock we have available for sale across both businesses.

- Use of Retail stock to service Online demand where stock available in stores is unavailable in our warehouses. This stock is offered on a 48-hour delivery promise.
- Same Day Click-and-Collect, allowing customers to access our store stock file and reserve stock for same day collection.
- Store to store stock balancing, to give better stock availability in our shops.

The combination of these initiatives serviced sales of around £60m. We cannot be certain that all these sales are incremental (some of the items found in store may have been substituted by others available in the warehouse), but we estimate that at least 50% are incremental.

2019 Priority – Improved Returns Processing

From a customer perspective, our store returns process is efficient and goods returned are credited to customers' accounts within one working day. However, the speed and efficiency with which returned stock gets back to our warehouses for resale has been less than optimal.

In the run up to Christmas it was taking us an average of 15 days to get stock back from stores and available for dispatch to customers. The resulting queue tied up £70m of stock which was unavailable to order. Improving the speed of returns to the warehouse will be a priority in the year ahead. The queue has already reduced to around £30m and we expect further improvements as the year progresses.

One innovation we believe will significantly improve the speed of returns will be the undertaking of a simple fold-and-pack operation in our stores for the items that can be made 'online ready' with relatively little work. This will allow these items to bypass the re-packing process when they get to our warehouses and become available for resale as soon as they get into our central warehouse.

NEXT ONLINE

This section starts by giving an update on the performance of our Online business in the year, broken down by division (NEXT Brand UK, LABEL and Overseas). This is followed by three focus sections covering:

- Marketing and systems
- The continued development of LABEL
- The development of our Overseas business

SALES, PROFIT AND CUSTOMERS

Sales and Profit Summary

Full price sales grew by +14.8%, with total sales growth (including markdown²³) of +14.7%. Net margin was 18.4%.

£m	Jan 2019	Jan 2018 ²⁴	
Total sales	1,918.8	1,672.4	+14.7%
Operating profit	352.6	309.8	+13.8%
Net margin	18.4%	18.5%	

Sales by Division

To give a clearer picture of how our Online business is developing, it is helpful to think of the business as being divided into three divisions: (1) The NEXT branded business in the UK, (2) the LABEL UK third-party branded business and (3) Online Overseas. The table below sets out the full price sales performance of each of these three divisions in the year ending January 2019.

Full price sales growth	£m	% var	H1 ²⁵	H2
NEXT Brand UK	75	+8.3%	+10.7%	+6.3%
LABEL UK ²⁵	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%

²³ Markdown sales were up +13.8%; this includes Clearance offers and all Sale events up to the year end date.

²⁴ Jan 2018 total sales, operating profit and net margin have been restated to separately report the Finance business, refer to Appendix 1.

²⁵ 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.

Profit by Division

The table below sets out operating profit and net margin by channel for the Online business in the year.

	Profit £m	Increase £m ²⁶	Net margin %
NEXT Brand UK	227.9	18.6	20.0%
LABEL UK	66.2	18.0	16.0%
Overseas	58.5	6.2	16.1%
Total Online operating profit	352.6	42.8	18.4%

As we reported in our Half Year Results, the reported net margins in LABEL and Overseas had, historically, been calculated including a deduction for attributable fixed logistics costs and markdown costs but no account had been taken for indirect central overheads. As these businesses have grown, they now meaningfully draw on our central overheads (such as Systems, Finance and, in the case of Overseas, Product teams). So we have decided to allocate a proportionate share of all central overheads to both businesses. This reduces margins by -3% in Overseas and -1% in LABEL.

Margin Movement Analysis

The table below sets out significant Online margin movements by major heads of costs.

Net margin on total sales to January 2018 – restated²⁶		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%
Warehousing & distribution	Growth in Overseas sales, which have a higher cost of distribution, eroded margin by -0.3%. Reduced delivery income from nextunlimited has reduced margin by a further -0.3%. Other operational costs have reduced margin by -0.4%.	- 1.0%
Catalogues & 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 to January 2019		18.4%

For the year ahead our central guidance is for full price sales to be up +11%. Based on this guidance we expect Online net margin in 2019/20 to be around 18.5%.

²⁶ Operating profit and net margin for the prior year have been reclassified, refer to Appendix 1.
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Customer Base

Average active customers²⁷ increased by +8% to 5.3 million, driven by the growth in Overseas and UK cash customers (those who do not use our nextpay 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%

FOCUS ON MARKETING AND SYSTEMS

Three years ago we described the extent to which our Online marketing and website systems had fallen behind the best in our sector. Since that time, we have responded vigorously and made significant progress in bringing our website, marketing capabilities and other online systems up to date with new technology.

Whilst we still have much to learn from industry leaders, we now believe that our systems put us at an advantage to many smaller online retailers and serve to increase the attractiveness of our Platform to partner brands. The table below sets out our expenditure on digital marketing, marketing professionals and systems. The figures given are for the last four years and estimates for the year ahead.

Category (£m)	Jan 2016	Jan 2017	Jan 2018	Jan 2019	Jan 2020 ^(e)	Four-year growth
Digital marketing	8	16	19	36	46	+500%
Marketing professionals	4	6	9	11	12	+159%
Online systems	34	38	44	49	57	+71%
Total	46	60	72	96	115	+150%

Continued Improvement of our Website

We continue to invest in improving the user experience on our website with developments planned for our home pages, navigation, product pages, search, onsite product recommendation, payment & checkout and registration. Personalisation and improving the performance of our new search engine (which has already delivered some promising results) remain a particular priority in the year ahead.

Mobile devices continue to increase in importance and account for around 70% of our customer visits and 55% of sales. In the year ahead we will be extending the functionality of our apps (iPhone and Android) to reflect the specialist functionality that is currently available on our main site (for example our 'sofa builder'). In addition, some of our most interesting initiatives are now being designed specifically to optimise mobile device functionality.

Digital Advertising

During the year we dropped some of our more traditional marketing, such as direct mail and recommend-a-friend, and invested the money in digital marketing. The returns achieved on digital marketing have been higher than

²⁷ Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.
Registered in England & Wales - Company Number: 04412362

expected and particularly strong overseas, where we have struggled to make a return in the past. We plan to increase expenditure on digital marketing by at least 28% in the year ahead.

THE CONTINUED DEVELOPMENT OF LABEL

Sales Performance

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).

LABEL Sales and Profit History

The table below sets out the last five years' sales, profits and net margins for LABEL, along with our estimate for the current year. Note that this table shows *total* sales (including markdown sales) so the growth rate is not identical to the full price growth rate quoted above.

£m	Jan 2015	Jan 2016	Jan 2017	Jan 2018 ²⁸	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%

LABEL in the Year Ahead

For the year ahead, we expect full price sales to be up +15% and net margin after central overheads to be 16% and in line with last year.

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.

²⁸ 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.

Commission and Wholesale

More than half of our third-party branded business is now sold on a commission basis²⁹. 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 work with more of our brand partners on a commission basis in the year ahead, with some key brands changing over to commission.

Platform Plus

We are expanding our Platform capabilities and in March 2019 we started a trial with three commission partner brands offering for sale on our website items that are only available in our partners' warehouses. Items ordered in this way are transferred from our partners' warehouses and distributed through our network of warehouses, couriers and stores. The key here will be to ensure that the process is cost effective and that we can fulfil the orders in good time.

The advantages of bringing these items into our network (as opposed to sending them directly to our customers from partners' warehouses) are as follows:

- It gives us the opportunity to consolidate items with other NEXT items in the customer's order and minimise costs.
- It gives us end to end control and visibility of the delivery process so that we can monitor quality of our service and rectify any errors.
- It allows us to distribute these items through our store network.

It has yet to be seen what advantage we can achieve from this way of working and we will give a further update at our Half Year Results.

²⁹ Lipsy operates as an internal commission brand partner and its sales are included within commission brand sales.
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DEVELOPMENT OF OUR OVERSEAS BUSINESS

Analysis of Online Overseas Sales

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).

	Jan 2019	Jan 2018	
Full price sales £m			
nextdirect.com	320.8	259.3	+24%
Third Parties			
New ³⁰	0.7	-	-
Continuous	25.2	16.0	+57%
Discontinued	7.2	14.6	- 51%
Full price Overseas sales	353.9	289.9	+22%

Online Overseas Profit History and Outlook

The table below sets out the last four years' sales, profits and net margins in Pounds for Online Overseas, along with an estimate for the year ahead.

£m	Jan 2016	Jan 2017	Jan 2018	Jan 2019	Jan 2020 (e)
Total sales	197	234	295	363	445
Operating profit	31	46	65	68	83
Net margin	16%	20%	22%	19%	19%
Operating profit including all central overheads				58	72
Net margin % including all central overheads				16%	16%

In the full year ending January 2019, Online Overseas profits have not grown as fast as sales for the following reasons:

- The fastest growing regions have higher customer returns and lower operating profit by around £4m.
- This year we incurred £1m of closure costs for our China operation.
- The prior year benefited from a one-off duty provision release of £4m.

In the year ahead, we expect full price sales to be up +22% and net margin (including an allowance for central overheads) to be 16%.

³⁰ Where we are trading in a new country with an established partner, we have classified the sales as 'New'.
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Developing our Overseas Business

The main drivers of overseas growth remain:

- 1) Organic growth as **word of mouth** increases awareness of the NEXT brand.
- 2) Investment in increased online **digital marketing**, which has helped deliver strong growth in active customers in key territories.
- 3) Increased breadth of **offer**.
- 4) The roll out of UK **web developments** in our overseas territories and other **systems improvements**.

Increased Marketing

Our Overseas active customer base has grown to 1.3m over the last twelve months, a growth of +25%. Average active customers in the year were up +22%.

Last year was the first year we have succeeded in making a healthy return on the cash invested in overseas marketing, with IRRs exceeding 300%. We intend to significantly increase investment in the year ahead. The table below sets out the Overseas marketing spend for the last two years along with our estimate for the year ahead.

£m	Jan 2018	Jan 2019	Jan 2020 (e)
Overseas marketing	6	7	12
% variance on previous year		+13%	+70%

Breadth of Offer

During the year we have significantly increased the number of options available on many of our overseas sites. For example, in January 2019 we had 70% more options available to purchase on our German website than at the same time in January 2018.

Increasing the breadth of our range may also have contributed to Overseas customers increasing the type of products they are willing to buy from NEXT. In particular we are seeing encouraging sales of Womenswear in a number of key territories where Childrenswear has traditionally dominated our sales mix. This may also be as a result of world fashion markets becoming less geographically distinct.

Other Improvements to our Overseas Sites in the Year Ahead

There is still much to do to improve our Overseas website and customer experience. Amongst other plans we intend to:

- Launch Apps in some key territories.
- Improve search and product recommendations.
- Personalise homepages in key territories.
- Improve registration, navigation, product pages and checkout.
- Expand payment options and delivery services in some of our key countries.

As is the case in the UK, no one improvement is expected to deliver significant growth, but we believe that the combination of these improvements will have a more meaningful impact on the growth of our Overseas business.

NEXT FINANCE

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

NEXT FINANCE PROFIT AND LOSS

The performance of our Finance business is shown in the table below. A detailed explanation of each line of the P&L is provided in Appendix 2.

£m	Jan 2019	Jan 2018	
<i>Note of nextpay credit sales</i>	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) ³¹	+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 profit³²	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%	

In the year ahead we are forecasting Finance profit of around £135m, a +12% increase on 2018/19.

Bad Debt History

The following chart shows the cost of bad debt, net of recoveries and VAT, as a percentage of our average debtor balance, since the year ending January 2010.

Last year we experienced an increase in bad debt costs of £15m. As a percentage of our average debtor balance, bad debt was 4.5%, an increase of 1.2% on the prior year. This increase was due to a combination of (1) macroeconomic factors (0.9%) and (2) internal credit decisions (0.3%), which we do not expect to be repeated in the year ahead. Our central guidance assumes a bad debt rate of 4.2%.

IFRS 9

This is the first year of reporting using the new IFRS 9 “Financial instruments” accounting standard (see Appendix 1). We have not seen a material impact from the implementation of the new standard when viewed on a like-for-like basis.

³¹ See Note 12 of the financial statements.

³² In March 2018 we noted that the Finance business made c.£119m in the year to January 2018. As part of the reclassifications referred to in Appendix 1, this figure is now £112m.

CREDIT CUSTOMER BASE

The chart below shows the annual change in active credit customers since January 2016. As at January 2019, active credit customers were up +1.3% on the previous year.

The growth over recent years has been driven by an improvement in retention of customers. Customer churn, which is the proportion of customers who are active at the beginning of the year but not at the end of the year, has reduced from 19% in the year to January 2016, to 13% in the year to January 2019.

New Credit Products

During the year we introduced two new credit products:

- **next3step**, a credit account which allows customers to spread the cost of orders over 3 months in three equal payments, without incurring an interest charge. We are recruiting around 2,000 new customers per week onto this credit product, with 50% of all new credit customers choosing this option.
- **nextpay** App, a new smartphone App which allows credit customers to pay for goods in our Retail stores in the same way as a physical payment card. On average, the App is downloaded 1,400 times per week, mainly by existing customers.

OTHER BUSINESS ACTIVITY

LIPSY

Lipsy is a wholly owned subsidiary managed from its headquarters in London by an independent management team. Lipsy sells product through a number of different channels, including the NEXT website and NEXT Retail stores. Sales through NEXT are reported through Online (LABEL) and Retail respectively. Profits on these goods are divided on a 50:50 profit share basis between NEXT and Lipsy. The working relationship between NEXT Online and Lipsy is very similar to the way LABEL works with commission brands. The table below sets out Lipsy's total sales performance by distribution channel and operating profit.

£m	Jan 2019	Jan 2018 ³³	
Sales through NEXT websites (reported in NEXT Online)	121.9	84.4	
Sales through NEXT stores (reported in NEXT Retail)	12.9	14.6	
Sales reported through NEXT	134.8	99.0	+36%
Other sales (wholesale, franchise and 3rd party websites)	15.1	15.9	
Total sales	149.9	114.9	+30%
Operating profit (excluding acquisition costs)	17.1	11.2	+53%

Lipsy has continued to grow online sales of its own product as well as 3rd party brands. Third-party branded sales account for 49% of sales compared to 44% in the prior year. Operating profit, including acquisition costs, was £11m, +129% on last year.

In the year ahead, we are forecasting net operating profit of around £15m (including acquisition costs), an increase of 40%.

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). Revenue and profit are set out in the table below.

£m	Jan 2019	Jan 2018
Franchise income ³⁴	52.2	55.7
Own store sales	10.0	11.5
Total revenue	62.2	67.2
Operating profit	6.2	7.7

Profit has reduced primarily due to a reduction in royalty income from our two largest franchise partners.

³³ January 2018 Lipsy sales have been restated to reclassify £8.2m of sales from lipsy.co.uk to NEXT Online.

³⁴ Franchise income is a combination of royalties received or commission added to the cost of goods sold to franchise partners.

NEXT SOURCING

NEXT Sourcing is our internal sourcing agent, which procures around 40% of NEXT branded product.

Sales were up +0.7% in US Dollars as a result of the increase in NEXT branded product sales. Net margin reduced by -0.6% to 5.4% mainly as a result of a prior year provision release.

The table below sets out the performance of the business in Pounds and in Dollars.

	Jan 2019 £m	Jan 2018 £m	Jan 2019 USD m	Jan 2018 USD m
Sales (mainly inter-company)	550.0	554.4	731.5	726.3
Operating profit	29.6	33.0	39.4	43.2
Net margin	5.4%	6.0%	5.4%	6.0%
Exchange rate	1.33	1.31		

In the year ahead we expect sales and profit in NEXT Sourcing to be broadly flat on 2018/19.

NON-TRADING ACTIVITIES

The table below summarises central costs and the profit on other non-trading activities.

£m	Jan 2019	Jan 2018
Central costs and employee share schemes	(19.4)	(20.2)
Property management	6.7	3.6
Foreign exchange	1.4	(1.1)
Associates and joint venture	0.1	1.0
Total	(11.2)	(16.7)

The property management profit has increased by £3.1m due to one-off costs in the prior year, relating to an increase in onerous lease provisions of £4m, mainly driven by two London stores. Foreign exchange gains relate to gains made on derivatives for which we cannot apply hedge accounting.

PENSION SCHEME

On the IFRS accounting basis, our defined benefit schemes have moved from £106m surplus at January 2018 to £125m surplus at January 2019. This increase is primarily due to the change in the discount rate assumption applied to the liabilities of the scheme.

A full actuarial valuation of our defined benefit pension scheme was undertaken as at 30 September 2016. The technical funding position was a surplus of £17m when rolled forward to 31 December 2018.

COST INFLATION AND COST CONTROL

In the year ahead to January 2020, we anticipate offsetting cost increases of £25m with cost savings of £29m. The tables below outline the main contributors to forecast cost increases and cost savings in the year. Cost control remains at the heart of the business and we remain determined that cost savings must come through innovation and efficiency, rather than any compromise to our product quality or services.

FORECAST FOR THE YEAR ENDING JANUARY 2020

Cost increases	£m (e)
General wage inflation	11
Investment in systems	6
National Living Wage	4
Warehousing & distribution	3
Occupancy (rates and energy taxes)	1
Total cost increases	25

Cost savings and other income	£m (e)
Catalogues and Photography	12
Net interest income and lower default rates	6
Property savings including fully depreciated assets	4
Retail productivity and cost improvements	3
Gross margin and freight costs	2
Other	2
Total cost savings	29

CASH FLOW

Profit generation for the year before interest, tax, depreciation and amortisation was £884m. Cash flow after non-discretionary outflows of taxation, interest and working capital was £669m. After investing in capital expenditure and paying ordinary dividends, but before financing customer receivables, the Group generated surplus cash of around £321m.

Total buybacks in the financial year to January 2019 were £325m; we purchased 6.3m shares at an average price of £51.65, reducing our shares in issue at the start of the financial year by 4.3%.

The table below summarises our main cash flows in the year ended January 2019 and our forecast for the year ahead, based upon our central profit guidance. We expect to generate £300m of surplus cash (after interest, tax, capital expenditure and ordinary dividends). As outlined in our January 2019 Trading Statement, we intend to return this £300m of surplus cash to shareholders through share buybacks, subject to market conditions.

In the year ahead, our capital expenditure is forecast to increase by £21m (page 42) and our Online debtor balance is expected to increase by £79m.

£m	Central guidance	
	Jan 2019	Jan 2020 (e)
Profit before Interest, Tax, Depreciation & Amortisation	884	881
Interest	(37)	(45)
Tax	(144)	(140)
Working capital and other	(34)	(33)
Discretionary cash flow	669	663
Capital expenditure	(129)	(150)
Investment in associate	(3)	-
Ordinary dividends	(216)	(213)
Surplus cash	321	300
Financing additional Online debt	(90)	(79)
Share buybacks	(325)	(300)
Movement in net debt	(94)	(79)

INTEREST AND TAXATION

Net interest charged in the Income Statement for the year was £39m, an increase of £5m on the previous year as a result of higher net debt. As a result of payment timing differences, the interest paid was £37m. In the year ahead we anticipate that our interest charge will increase to around £45m as a result of higher interest rates and average net debt.

Our full year effective tax rate was 18.3%, a reduction of -0.2% on last year driven by the corresponding reduction in UK corporation tax rate.

CAPITAL EXPENDITURE

As set out in the table below, capital expenditure this year was £129m, £25m higher than last year. This increase comes from investment in our Online warehouse capacity required to deliver future sales growth. In the year ahead, we forecast total capital expenditure to be around £150m, driven by further warehouse investment.

£m	Jan 2020 (e)	Jan 2019	Jan 2018
Retail space expansion	33	57	56
Retail cosmetic/maintenance capex	15	12	22
Total capex on stores	48	69	78
Warehouse	85	52	11
Head Office infrastructure	6	4	6
Systems	11	4	9
Total capital expenditure	150	129	104

In the year ending January 2019 Retail space remained our biggest investment at £69m. Warehouse investment of £52m represents a £41m increase on last year and is part of a £200m programme of warehouse expansion to increase capacities. Details of this expansion programme were given in our Half Year Results; progress made to date is on schedule and will increase our Online units sales capacity by 75%.

If our Online growth continues at current levels we will need to further expand our warehouse infrastructure, with the possible addition of a third boxed warehouse in 2022. Early estimates suggest this would cost c.£60m. However, we would expect by then to see a corresponding reduction in Retail capital expenditure and therefore there would be no material change to the Group's capital expenditure.

Our latest five year forecast for capital expenditure is set out in the chart below. Our average annual estimate for capital expenditure has increased by £5m to £125m. Within this, Warehouse spend during the five-year period has increased by £60m to £300m and store spend has reduced by £50m to £260m.

ORDINARY DIVIDENDS

The Board has proposed a final ordinary dividend of 110p, to be paid on 1 August 2019 and taking the total ordinary dividends for the year to 165p, +4.4% on last year. This is subject to approval by shareholders at the

Annual General Meeting to be held on 16 May 2019. Shares will trade ex-dividend from 4 July 2019 and the record date will be 5 July 2019.

NET DEBT AND FINANCING

Our year end net debt was £1,096m, which is £94m higher than last year due to the increase in sales growth from credit customers.

The entire value of the Group's net debt is more than matched by the value of our nextpay debtor book, a financial asset worth £1,207m.

Net debt, which is forecast to peak in the year ahead at around £1.37bn, is securely financed through a combination of bonds and committed bank facilities. At January 2019 our committed financing amounted to £1.5bn and consists of £875m of bonds and £625m of committed bank facilities.

The Group maintains its objective of retaining investment grade status. The Group's current and forecast peak net debt is within that limit.

In the year ahead we expect to refinance our bank facilities and rebalance our long-term and short-term financing.

PART 5

OUTLOOK FOR SALES AND PROFIT

THE WIDER MARKET

Real Earnings and Employment

Whilst our relationship with the EU remains uncertain, other economic indicators for the consumer look less worrying than at this point last year. Real Earnings in the UK have remained positive since January 2018 and look like they are still gaining strength as we move into 2019. Employment rates are also continuing to increase; people in work are earning more and more people are in work. Whilst these increases remain modest, there is nothing to suggest that consumers will feel the need to retrench in the year ahead, the prolonged period of real income squeeze appears to be coming to an end.

Uncertainty over The UK's Future Relationship with the EU

There is still a great deal of uncertainty around the exact shape and form of the UK's future relationship with the EU. We can see no evidence that this uncertainty is affecting consumer behaviour in our sector. Our feeling is that there is a level of fatigue around the subject that leaves consumers numb to the daily swings in the political debate. It appears to us that consumer behaviour (in our sector) will only be materially changed if the UK's departure from the EU (or continued uncertainty around this subject) begins to affect employment, prices or earnings. It does not seem to be having any adverse effect on these variables at the present time.

NEXT's Preparations for Possible Departure from the EU

As far as NEXT's preparations for departing the EU are concerned, we have little to add to the detailed paper we issued in September. We remain ready for all eventualities and have the systems and administrative procedures in place to ensure a smooth transition to a new customs regime. We have been encouraged by the temporary measures HMRC have announced to ensure our ports remain fully functional during any transition. We currently have little reliance on Dover or Calais. Nonetheless we have put in place contingency plans to route more stock through alternative, lower risk, ports of entry if needed.

Potential Impact of Contingent Tariff Rates on NEXT's Costs and Selling Prices

In terms of potential tariffs and their impact on our UK prices, the issuing of the Government's provisional tariff rates has been helpful. In the (seemingly unlikely) event that these provisional rates are introduced in the near future, we estimate that there would be a net reduction in the tariffs we pay of around £12m to £15m. This saving would arise because the proposed reductions in tariffs from countries outside the EU would more than offset any increase in tariffs on goods we currently source from the EU and Turkey.

In the medium term, our intention would be to pass on cost price improvements to customers, in the form of better pricing. In the context of £1.7bn of stock purchases, the savings would be relatively modest.

Changes to the UK tariff regime will not affect the prices of goods we sell into the EU or other overseas territories.

SALES AND PROFIT GUIDANCE FOR THE YEAR AHEAD

SALES OUTLOOK FOR THE YEAR AHEAD

Our central guidance is based on full price sales for the year ahead being up +1.7%. This is in line with our performance in the second half of last year. The table below sets out our central guidance for full price sales growth by major trading division, Retail, Online and Finance. For comparison, we give the actual performance for last year.

Full price % variance on previous year	Central guidance 2019/20 (e)	Actual performance in 2018/19
Retail sales (including sales from new space)	- 8.5%	- 7.3%
Online sales	+11.0%	+14.8%
Product full price sales	+1.1%	+2.4%
Finance interest income	+9.9%	+12.1%
Total full price sales including interest income	+1.7%	+3.1%

PROFIT OUTLOOK FOR THE YEAR AHEAD

Although we anticipate that our total sales will grow in the year ahead, we are forecasting for profits to marginally decline. We have talked before about the structural costs involved in business moving from Retail to Online. The problem is that, in the short term, many of our Retail costs (such as rent) remain fixed but increasing business Online generates additional variable costs required to handle more deliveries and warehouse work. In addition, LABEL and NEXT Overseas both make lower net margins than NEXT branded stock Online and these areas are our fastest growing businesses.

The next two sections outline how the structural change affected our profit and loss account last year and how we expect these costs to develop in the year ahead.

Impact of Structural Shift on Profits in 2018/19

The table below sets out the profit effect seen from the structural shift of sales in the last year as business transfers from Retail to Online.

For each division we show the change in sales and *marginal* profits generated by that incremental business. The profit given in the second column is the profit after all direct variable costs but *before* any allocation of fixed costs. The aim is to show the change in profit resulting from the change in sales in each business. For completeness, the cost increases and cost savings in the business are added below to give the total change in the profits of all four divisions.

Full year to January 2019	Full price sales vs last year £m	Profit vs last year £m	% Margin before fixed overheads
Retail (including new space)	- 137	- 74	54%
NEXT UK Online	+85	+41	48%
Overseas	+64	+16	24%
LABEL	+97	+26	26%
Total Online (including Finance interest)	+246	+83	34%
Total Brand full price sales and profit	+109	+9	
Cost increases		- 57	
Cost savings		+45	
Total	+109	- 3	

Estimated Impact of Structural Shift on Profits in 2019/20

Based on our guidance, the figures below give estimates for the full price sales growth by division and the respective impact those sales have on marginal profits. The structure of the table is identical to the one above and shows similar numbers. The main difference is that we are expecting more growth from our lower margin LABEL and Overseas business and less growth from our NEXT branded Online business. So, the overall cost of structural shift is expected to be a little higher in the year ahead.

Full year forecast to January 2020	Full price sales vs last year £m	Profit vs last year £m	% Margin before fixed overheads
Retail (including new space)	- 146	- 79	54%
NEXT UK Online	+64	+31	48%
Overseas	+82	+20	24%
LABEL	+63	+16	26%
Total Online (including Finance interest)	+209	+67	32%
Total Brand full price sales and profit	+63	- 12	
Cost increases		- 25	
Cost savings		+29	
Total	+63	- 8	

OUTLOOK FOR PROFITS

We are maintaining the central guidance we issued for the full year in our January 2019 Trading Statement. At our central guidance of full price sales growth of +1.7%, we estimate that Group profit before tax would be around £715m, down -1.1% on last year. We expect EPS to be enhanced by +4.9% as a result of the continuing distribution of surplus cash generation in the form of share buybacks. As a result, EPS for the full year are expected to rise by +3.6%. Our central guidance for sales, profits and EPS is set out in the table below.

Full year estimate to January 2020	Central guidance
Total full price sales versus 2018/19	+1.7%
Group profit before tax	£715m
Group profit before tax versus 2018/19	- 1.1%
Earnings Per Share growth versus 2018/19	+3.6%

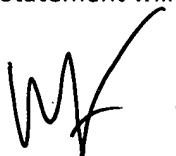
ACTION PLAN FOR THE YEAR AHEAD

This has been a long document and looks further into the future than usual. 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.

FIRST QUARTER TRADING UPDATE

Our first quarter Trading Statement will cover the thirteen weeks to 27 April 2019 and is scheduled for Wednesday 1 May 2019.



Lord Wolfson of Aspley Guise
Chief Executive
21 March 2019

APPENDIX 1

Changes to the Presentation of Our Divisional Results

In our Half Year Results we explained a change in the way we presented the performance of the individual divisions within NEXT. These Full Year results have been prepared on the same basis as Half Year but, for clarity, these changes are explained again in detail below.

These changes relate to the reclassification of sales or profit between business divisions in the year ending January 2018; overall Group sales and profit are unchanged. We have restated prior year numbers in order to provide the appropriate comparative figures in this set of results.

The aim is to give a clearer picture of the underlying economics of the Group.

NEXT Finance and Online

In the past we have consolidated the Finance business into our Online business for reporting purposes. In order to give further clarity on the underlying performance of the Group, we are now separately reporting the Finance business. Finance revenue represents the interest charged to our customers on their credit account balances. Finance profit 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 average cost of borrowing.

Lipsy.co.uk

In January 2018 the lipsy.co.uk website was closed and Lipsy online sales are now made through the NEXT websites and reported in the Online business, under LABEL. We have reclassified sales of £8.2m (including markdown sales) and profit of £1.1m from Lipsy to Online.

NEW ACCOUNTING STANDARDS

The Group has retrospectively applied the requirements of IFRS 15 "*Revenue from contracts with customers*" to statutory revenue. This increased statutory revenue by £40.3m in 2018/19 and £35.2m in 2017/18. There was no impact on Group profit or total sales in either years. For further details refer to Note 1 of the financial statements.

This year the Group has applied the new accounting requirements of IFRS 9 "*Financial instruments*" for the first time. There were no adjustments to prior year balances as a result of this transition. Refer to Note 1 of the financial statements for further details.

APPENDIX 2

Finance Profit and Loss Explained

Term in P&L	Definition
Interest income Line 1	Interest income is the gross interest billed to nextpay customers, before any deduction for unpaid interest on bad debt. Interest income has grown broadly in line with the average debtor balance (line 5).
Bad debt charge Line 2	A charge is taken in relation to the performance of our debt book. This consists predominantly of a charge on the debt owed by customers who have defaulted and the cost of providing for future defaults. The bad debt charge is determined by (a) the size of our outstanding debtor balance and (b) the default rate we anticipate in any given year. So any one of the following three factors will increase the bad debt charge: (i) Growth in the closing balance driven by an increase in <i>credit sales</i> (ii) Growth in the closing balance driven by an increase in <i>payment days</i> (the time taken to pay down a balance) (iii) Any change in the anticipated <i>bad debt rate</i> The bad debt charge has increased by £15m in the year due to all three of these factors. Credit sales have increased by +8%, payment days have risen by +3% and the bad debt rate increased by +1.2% to 4.5% of the average debtor balance.
Overheads Line 3	Covers all the administrative costs associated with operating the Finance business including call centres and statements etc.
Cost of funding Line 4	For the purpose of these accounts we have assumed that the entire debtor balance is funded by the NEXT Group, as if there were an inter-company loan in place. The interest charged to the Finance business has been calculated by applying the average Group interest rate (i.e. the borrowing rate of the NEXT Group) to the average outstanding debtor balance. It is important to note that the Group's debt is less than our total debtor balance and this gap means that the Group earns a profit on some of the money it lends to the Finance business. The average Group interest rate this year is 3.5% compared with 4.0% last year. This is due to a larger proportion of this year's debt being on a floating interest rate.
Average debtor balance Line 5	The average amount of money owed by all nextpay customers less any provision for bad debt (i.e. the sum total of balances we expect to be paid averaged across the year).
Return on Capital Employed Line 6	The net profit divided by the average debtor balance (line 5).

BUSINESS MODEL

NEXT offers exciting, beautifully designed, excellent quality clothing and homeware which meets and exceeds the aspirations of our customers, at prices that are within the reach of most people.

The Group is primarily comprised of:

- NEXT Online, with over 5 million active customers globally and websites serving over 70 countries (see page 29).
- NEXT Retail, a chain of around 510 stores in the UK and Eire. The majority of our stores sell clothing, footwear, accessories and/or home products; and we operate 37 large combined fashion and home stores. NEXT stores are an important part of our Online delivery service. Currently nearly half of our UK Online orders (by number of orders) are fulfilled through our shops (see page 22).
- NEXT Finance currently provides £1.2bn of consumer credit for NEXT customers to purchase products online and in our stores through nextpay and next3step (see page 36).
- NEXT International Retail, with around 200 mainly franchised stores in 35 countries (see page 38).
- Lipsy, which designs and sells its own branded and other branded products. It trades through NEXT Online, from around 50 NEXT stores, and through wholesale and overseas franchise channels (see page 38).
- NEXT Sourcing, which designs and sources NEXT branded products. NEXT Sourcing (NS) is our Hong Kong based international sourcing agent, competing for business with other suppliers (see page 39).

Why we are unique

The scale of our Online business and our store network in the UK has allowed NEXT to develop an increasingly powerful platform for selling clothing and homeware in the UK and Eire. For details, see page 10 in the Chief Executive's Review.

In terms of the breadth of our product offer, the story goes beyond simply extending NEXT branded product ranges. Over the last ten years, we have gradually transformed our website from a single brand site to an online aggregator of clothing, footwear and home brands. This year we have sold over £400m of other brands' product through LABEL, a business that continues to grow and develop.

The NEXT Brand also continues to develop overseas through its presence online. Sales of NEXT branded product continue to grow strongly, both through our own international websites and local third-party aggregators. This year our Online Overseas sales reached over £350m.

What we do

Our approach is to build as much flexibility into our operations and cost base as possible in order to minimise the negative effects of falling Retail sales and maximise opportunities for growth Online. This means a constant process of reinvention and experimentation within our business, whilst preserving the integrity of our brand, the calibre of our people, the quality of our operations and the profitability of the Group.

1 Great products

NEXT products are developed by our in-house design team to offer great style, quality and value for money with a contemporary fashion edge.

NEXT also sells around 500 third-party brands through LABEL online.

A combination of NEXT and other branded product provides customers with extensive product ranges, all as part of a convenient shopping experience.

2 Global sourcing

NEXT sources over 200 million of its own branded products globally from over 40 countries.

NEXT sourcing provides around 40% of NEXT branded products from our global supplier base including 4 NEXT owned factory sites.

3 Efficient supply chain

NEXT operates 8 UK warehouses, 7 UK depots and 3 international hubs providing cost effective and efficient delivery to our Online and Retail customers.

Next-day delivery is standard for UK NEXT Online orders placed before midnight.

4 Outstanding customer experience

Outstanding customer experience is a key focus, regardless of whether our customers are using our online websites, mobile apps or visiting our stores.

Customers can choose delivery services to suit them, ordering online or instore for delivery to home or store. During the year we launched a 'Collect Today' service on certain items ordered online for same day collection instore.

NEXT offers a credit facility for UK NEXT Online customers called nextpay.

Our large number of stores, many with cafe and other concessions, provide a convenient and exciting shopping experience.

5 Returning value to shareholders

NEXT is highly cash generative, allowing us to invest in the business and deliver long term value to our shareholders through a combination of growth in Earnings Per Share or payment of cash dividends.

Our key resources and relationships

We depend on the following resources and relationships to create value and achieve our business objectives:

Key resources and relationships	How we create value	Further details are provided in this report
Customers	• Providing our customers with great product ranges they want to buy • Offering excellent customer experience, regardless of whether customers shop online or instore • Customers are at the heart of everything we do	Page 62
Suppliers	• Sourcing globally to deliver quality and value for money products that are responsibly sourced • Working with third-party branded suppliers to provide an extensive range of clothing and homeware products to our customers	Page 62
Workforce	• Attracting, retaining and developing the best talent at every level throughout NEXT • Creating an environment where all individuals feel welcomed, respected and supported	Page 60
Buildings and Infrastructure	• Providing robust, customer friendly websites which are continually reviewed and developed to ensure they are meeting our customers' needs • Building and operating warehouse and logistics operations that provide an efficient and agile product distribution network • Operating a predominantly leased store portfolio which is actively managed. Opening, closure and refit decisions are based on store profitability and payback criteria	Page 31 Page 42 Page 23
Finance	• Managing financial resources effectively, including a strong focus on cost control and maximising shareholder returns	Page 40

Further detail on the performance and development of the Group's businesses can be found in the Chief Executive's Review on pages 4 to 49, which forms part of this Strategic Report along with Key Performance Indicators (pages 52 and 53), Risks and Uncertainties (page 54), Employees (page 60), Social, Community and Human Rights (page 61) and Environmental Matters (page 63).

Business strategies and objectives

The primary financial objective of the Group is to deliver long term, sustainable returns to shareholders through a combination of growth in Earnings Per Share (EPS) and payment of cash dividends. Over the last ten years, EPS and ordinary dividends per share have both increased by over 170% and the Company's share price has increased by over 330%. This long term value has been created through the pursuit of 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 (nextpay) 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.
- Generating and returning surplus cash to shareholders by way of share buybacks and/or special dividends.

Read about our action plan for the year ahead on page 47

Read about the outlook for sales and profit on page 44

KEY PERFORMANCE INDICATORS (KPIs)

KPIs are designed to measure the development, performance and position of the business. Group cash flows and divisional results are detailed in the Chief Executive's Review and elsewhere in this Annual Report. Refer to the Glossary on page 177 for further details.

As noted on page 48 of the Chief Executive's Review, we are now separately reporting the Finance business. New KPIs have been included which are specific to the NEXT Finance business.

Sales (%)

	2019	2018
NEXT BRAND full price sales growth	+3.1%	+0.7%
NEXT BRAND total sales growth	+2.6%	-0.6%

Full price sales are VAT exclusive sales of stock items excluding items sold in our mid-season, end-of-season and Black Friday Sale events and our Clearance operations, and includes interest income on those sales.

Total sales are VAT exclusive full price and markdown sales including the full value of commission based sales and interest income (as described in Note 1 of the financial statements).

NEXT profitability

	2019	2018
NEXT Retail operating margin	+10.9%	+12.7%
NEXT Online operating margin (excluding NEXT Finance)	+18.4%	+18.5%
Group profit before tax (£m)	722.9	726.1

Divisional operating margin is profit after deducting markdowns and all direct and indirect trading costs expressed as a percentage of achieved total sales (refer to Note 1 of the financial statements).

NEXT Retail selling space

	2019	2018
Store numbers	507	528
Square feet (000's)	7,989	8,029

Selling space is defined as the trading floor area of a store which excludes stockroom and administration areas and is shown as at the financial year end. The above square footage excludes 305K sq. ft. (2018: 242K sq ft) of space occupied by concessions.

NEXT Retail sales performance

	2019	2018
Full price sales growth	-7.3%	-7.0%
Total sales growth	-7.9%	-7.9%
Underlying total like-for-like sales	-8.5%	-9.8%
Underlying full price like-for-like sales	-8.2%	-9.1%

Underlying like-for-like sales represents the growth in sales from stores which have been open for at least one full year, excluding stores impacted by new openings.

NEXT Online

	2019	2018
Sales performance		
Full price sales growth	+14.8%	+11.2%
Total sales growth	+14.7%	+9.2%
Average active customers (000's)		
Credit	2,524	2,494
Cash	2,810	2,436
Total	5,334	4,930

Average active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.

Credit customers are those who order using an Online credit account, whereas cash customers are those who pay when ordering.

NEXT Finance

	2019	2018
nextpay credit sales (£m)	1,688.8	1,562.6
Interest income (£m)	250.3	223.2
Average debtor balance (£m)	1,140.0	1,013.7
Net profit (£m) (after cost of funding)	121.2	111.9
Return on Capital Employed (after cost of funding)	+10.6%	+11.0%

Credit sales are defined as VAT exclusive sales from Online credit customers who have purchased using their Online account, inclusive of any interest income charges and delivery charges, and after deducting any applicable promotional discounts.

Return on Capital Employed is defined as the NEXT Finance net profit (after the interest charge relating to the cost of funding, divided by the average debtor balance).

Earnings Per Share

	2019	2018
EPS	435.3p	416.7p

Refer to Note 8 of the financial statements.

Returns to shareholders (£m)

	2019	2018
Ordinary dividends	215.7	224.1
Special dividends	-	255.6
Share buybacks	324.2	106.1
	539.9	585.8

Based on dividends paid in the Cash Flow Statement. Refer to Note 7 of the financial statements.

A total of 6,276,572 shares were purchased in the financial year (2018: 2,174,357) at an average cost per share of £51.65 (2018: £48.81) including stamp duty and associated costs. The average price before costs was £51.33 (2018: £48.51). Buybacks represented 4.3% (2018: 1.5%) of opening share capital.

RISKS AND UNCERTAINTIES

Risk management and internal control framework

The Board has overall responsibility for risk management and the system of internal controls and for reviewing their effectiveness. It operates a policy of continuous identification and review of principal business risks. This includes identifying key risks, determining control strategies and considering how those risks may affect the achievement of business objectives, taking into account risk appetite.

Executive directors and senior management are delegated the task of implementing processes to ensure that risks are managed appropriately.

Our approach to risk management is as follows:

- On a day-to-day basis, the risk management process is co-ordinated by the corporate compliance team which reports to the Audit Committee.
- Each business area is responsible for preparing and maintaining operational risk registers and for identifying, evaluating, managing, measuring and monitoring the risks in their respective areas. Risk registers are prepared using consistent risk factors and incorporate business impact and likelihood ratings, both before and after the effect of any mitigating factors or controls.
- Issues, incidents and mitigating activities are reported to the corporate compliance team on a regular basis, including a half yearly review of new risk factors. There is also an annual review of operational risk registers which are approved by relevant senior managers and operational directors. This is to ensure risks are comprehensively covered and assessed consistently across the business. Operational risk registers identify limited, though not significant, control weaknesses and clear action plans are in place to address these.
- A corporate risk register is maintained which reflects key risk factors identified as part of the risk management process and forms the basis of the principal risks and uncertainties disclosed in this Report. The Audit Committee reviews and discusses these risks at least twice each year, and the Board at least annually. The corporate risk register includes key controls, mitigating activities and action plans in respect of the principal risks.
- The work and findings of the corporate compliance team are reviewed, discussed and agreed by the Audit Committee at least twice each year. Any significant matters are communicated to the Board.
- Internal audit plans are agreed with the Audit Committee at least annually and are focussed on the risks and controls identified through this risk management process.

During the year the Board carried out a detailed evaluation of the effectiveness of the risk management and internal controls systems for all parts of the business. This covered all material controls including financial, operational and compliance controls, and the Board is satisfied that they have been operating effectively for the financial year to January 2019 and up to and including the date of this report. Refer to page 76 of the Corporate Governance Report for further details.

The Audit Committee requested and received specific presentations from senior management in relation to other risk areas including data security, cyber risk and warehouse capacity risks. Refer to page 81 of the Audit Committee Report for further details of the key Audit Committee activities during the year.

No significant failings of internal control were identified during these reviews.

Brexit

At the time of writing, the terms of the UK's departure from the EU (Brexit) remains uncertain. Brexit does not give rise to a new principal risk for NEXT. However, it does have the potential to impact a number of existing operational risks, e.g. product availability, exchange rates, changes in tariffs and duties, regulatory changes and economic uncertainty.

The half year results issued in September 2018, included an 11 page Brexit Planning Statement (available on our corporate website nextplc.co.uk), which provided a detailed analysis of the Brexit related risks and operational challenges to our business and their potential impact. Each of the risks were covered in turn and, where possible, the risks were quantified together with the measures being taken to mitigate the operational and financial challenges of a no-deal Brexit.

NEXT's preparations for a no-deal Brexit are well advanced and include a Brexit Steering Committee to oversee setting up the administrative, legal and physical infrastructure that will be needed to operate effectively if the UK leaves the EU without transition arrangements. NEXT anticipate that we will have, at the time of the UK's departure from the EU, done all we can to ensure that the business is able to carry on running as it does now. One of the biggest risks is that UK ports are unable to cope with the additional volume of customs work which would result in delays in goods passing through ports. As long as ports and customs procedures are well prepared for the change and tariff rates are adjusted to ensure no net increase in duty costs to consumers, we believe we can manage the business without material cost increases or serious operational impediments.

Progress in the Brexit negotiations will continue to be monitored and the risks and uncertainties will be managed within the risk management and control process described above.

Assessment of principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Refer to the Corporate Governance section on page 77 for further details. The principal risk areas remain the same as reported last year. Those principal risks are described below together with an explanation of how they are managed or mitigated.

Reputational risk is not in itself one of the principal risks detailed below, however, it does have the potential to impact a number of existing principal risks and is an important consideration. The Board is committed to ensuring that the key risks are managed on an ongoing basis and operate within an acceptable level. Whilst these risks all have the potential to affect future performance, work is undertaken to mitigate and

manage these risks such that they should not threaten the overall viability of the business over the three year assessment period (refer to the viability assessment on page 59).

Link to strategy (refer to page 51)

● Improving and developing our product ranges	● Focusing on customer experience and satisfaction
● Maximising the profitability of retail selling space	● Maintaining the Group's financial strength
● Increasing the number of profitable NEXT Online customers	● Generating and returning surplus cash to shareholders
● Managing margins	

Trend direction from 2017/18: ↑ Limited increase ↔ Unchanged ↓ Limited decrease

Principal risk and description

●●●●●●●● ↔ 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 NEXT'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 Chief Executive provides updates at Board meetings regarding key sales and development opportunities and progress of agreed initiatives. • The Group Finance Director provides updates at Board meetings regarding actual sales and profit performance by business stream. • 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. • The Audit Committee monitors strategic and operational risk regularly and any significant matters are reported to the Board. • 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 (see page 14). This process provides a mechanism for ensuring that business profitability is maximised through efficient allocation of resources and management of costs.
●●●●●●●● ↔ 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.	• The Board considers the development of senior management to ensure there are opportunities for career development and promotion to important management positions. • The Remuneration Committee reviews executive director and senior management remuneration at least annually and formulates packages 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 Nomination Committee considers and reviews the skills, diversity, experience and succession planning of the Board and senior management. This also incorporates emergency cover planning.

Principal risk and description	
000 ↔ 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 within six months where deemed necessary. • 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 product safety related issues.
00 ↔ 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. Refer to further details on page 62. • We train relevant employees and communicate with suppliers regarding our expectations in relation to responsible sourcing, anti-bribery, human rights and modern slavery. • The Audit Committee received Code of Practice and modern slavery updates from senior management during the year. • The Audit Committee received modern slavery and anti-bribery training progress updates together with whistleblowing reports at each meeting. Significant matters are reported to the Board.
Principal risk and description	
000 ↑ 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.	• 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

The recent acceleration in our Online sales has taken some of our warehouses closer to some of their capacity limits.	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. • The Board approved a four year warehouse investment proposal to accommodate further Online growth and transfer in customer demand from Retail to Online. Refer to page 42 for further details. • The Audit Committee requested and received an update of key warehouse risks and mitigation plans from our Warehousing and Logistics directors.
●●● ↔ NEXT'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. • Continued investment in online marketing initiatives. Refer to page 31 for further details. • 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. • Call centre employees receive comprehensive training on an ongoing basis, to ensure they achieve the highest standards of service.
●●● ↑ 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 opportunities. • Senior management undertake scenario stress testing of our store portfolio to review and manage profitability. This includes pessimistic long-term scenarios. Refer to page 14 for more details.
Principal risk and description	
●● ↔ 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	• The Information Security Steering Committee continues to be in place. Main activities include agreement and monitoring of related key risks, activities and incidents. The Committee is comprised of two executive directors and relevant senior 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. • Ernst & Young LLP again undertook an independent Information Security maturity assessment with results reported to the Audit Committee. • Each Audit Committee meeting in the year included Information Security and cyber risk updates. • The Audit Committee also received a Business Continuity update during the year.
●●● ↔ 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 Group 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. Further details of the Group's treasury operations are given in Note 27 of the financial statements. • 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. • The Board and Audit Committee received regular updates throughout the year regarding the customer credit business.

VIABILITY ASSESSMENT

Statement of Viability

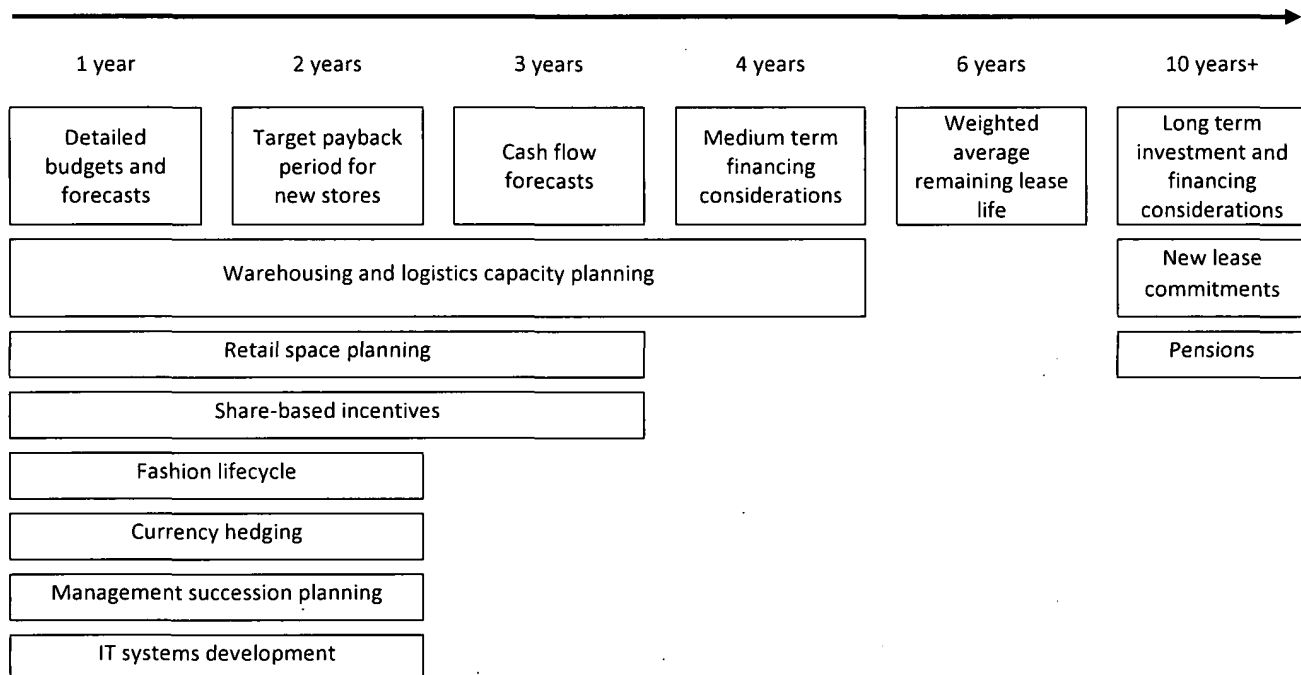
Assessment of prospects

The directors have assessed the prospects of the Group by reference to its current financial position, its recent and historical financial performance and forecasts, its business model (page 50), strategy (page 51) and the principal risks and mitigating factors (described on pages 54 to 58). In addition, the Board regularly reviews the financing position of the Group and its projected funding position and requirements.

The Group is operationally and financially strong and has a long track record of consistently generating profits and cash, which is expected to continue over the long term. The directors review cash flow projections on a regular basis.

Assessment period

The retail sector is inherently fast paced, competitive and dynamic, particularly in respect of the fashion product cycle. However, as illustrated in the diagram below, a wide variety of other time horizons are also relevant in the management of the business:



The directors have assessed the viability of the Group over a three year period, as they believe this strikes an appropriate balance between the different time horizons which are used in the business and is a reasonable period for a shareholder to expect a fashion retail business to be assessed over.

Assessment of viability

Viability has been assessed by:

- 'top-down' sensitivity and stress testing. This included a recent review by the Audit Committee of three year cash projections which were stress tested to determine the extent to which trading cash flows would need to deteriorate before breaching the Group's facilities. This was both before and after anticipated shareholder distributions, and assuming that any bank facilities which expire and bonds which mature during the period are not replaced. In addition, the financial covenants attached to the Group's debt were stress tested.
- considering the likelihood and impact of severe but plausible scenarios in relation to each of the principal risks as described on pages 54 to 58. These principal risks were assessed, both individually and collectively, taking into consideration mitigating actions that might be undertaken in particular situations. Whilst the principal risks all have the potential to affect future performance, none of them are considered likely either individually or collectively to give rise to a trading deterioration of the magnitude indicated by the stress testing and to threaten the viability of the business over the three year assessment period.

As detailed on page 54, in September 2018 we prepared a detailed analysis of the Brexit related risks and operational challenges to our business and their potential impact. NEXT's preparations for a no-deal Brexit are well advanced. NEXT anticipate that we will have, at the time of the UK's departure from the EU, done all we can to ensure that the business is able to carry on running as it does now.

Viability statement

Based on this review, the directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three year period.

NON-FINANCIAL INFORMATION STATEMENT

NEXT aims to comply with the new Non-Financial Reporting Directive requirements contained in sections 414CA and 414CB of the Companies Act 2006. The table below sets out where relevant information can be found in this Annual Report together with an overview of our relevant policies and standards.

Reporting requirement	Relevant information	Policies and Standards
1. Business model	Business model - page 50	
2. Principal risks and impact of business activity	Principal Risks - page 55 Viability assessment - page 59	
3. Employees	Employees - page 60 Diversity policy - page 79 Health & Safety - page 62	Staff Handbook Whistleblowing Policy* Group Health and Safety Policy*
4. Social matters	Supporting Charity and Community - page 62	
5. Human rights	Human rights - page 61 Suppliers - page 62	Human Rights and Modern Slavery Policy* Data Retention Policy Customer Data Privacy Policy* Employee Data Privacy Policy
6. Anti-corruption and anti-bribery	Whistleblowing - page 83	Staff Handbook Anti-Bribery Policy* Competition Law Policy Supplier Code of Practice Standards* Whistleblowing Policy*
7. Environmental matters	Environmental matters - page 63 Greenhouse gas emissions - page 63 Waste diverted from landfill - page 63 Energy use and emissions - page 63	Five year environmental targets were set in 2015 New environmental targets are being developed for introduction in the 2019/20 financial year

Further information regarding our employees, social, community, human rights and environmental matters is provided in our latest Corporate Responsibility Report available on our corporate website at nextplc.co.uk.

* Our latest policies are available at nextplc.co.uk

Employees

NEXT's employees are integral to achieving our business objectives and we aim to attract, retain and develop the best talent at every level throughout NEXT. We are committed to creating an environment where all individuals feel welcomed, respected and supported. NEXT 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 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 legislation. The Group 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. Further details of our diversity policy are included in the Nomination Committee Report on page 79.

The following charts show the gender mix of the Group's employees at the end of the financial year:

	2019		2018	
	Male	Female	Male	Female
Directors of NEXT plc	5	4	5	4
Subsidiary directors and other senior managers	25	12	29	13
Total employees	14,353	30,329	13,973	28,923

Gender pay

Registered in England & Wales - Company Number: 04412362

NEXT publishes its annual Gender Pay Report at nextplc.co.uk.

Training and development

NEXT 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 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.

Employee share ownership

Approximately 9,600 employees held options or awards in respect of 6.6m shares in NEXT at the end of January 2019, being 4.8% of the total shares then in issue. NEXT's employee share ownership trust (ESOT) purchases shares for issue to employees when their options are exercised or awards vest. At the year end the ESOT held 5.5m shares; the Trustee generally does not vote on this holding on any resolution at General Meetings.

Pension provision

NEXT provides pension benefits to participating employees, details of which are set out in the Remuneration Report and in Note 19 of the financial statements. At January 2019, there were 814 (2018: 878) active members in the defined benefit section of the 2013 NEXT Group Pension Plan and 4,841 (2018: 2,977) UK active members of the defined contribution section. In addition, 13,118 employees (2018: 15,413) participate in the Group's auto enrolment defined contribution scheme.

Taxation

NEXT 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. NEXT's UK tax policy can be found at nextplc.co.uk.

Social, Community and Human Rights

NEXT 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.

The Group's Corporate Responsibility Report is published on our corporate website at nextplc.co.uk. NEXT is also a member of the FTSE4Good Index Series.

Human rights

NEXT recognises its responsibility to respect human rights throughout its operations. We are 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.

Our 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.

NEXT takes seriously any allegation of human rights abuse in all its forms and will not tolerate human rights abuse anywhere in our 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 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 calculated and uploaded relevant supplier KPIs onto the HMRC government portal.

Customers and products

NEXT offers stylish, quality products to its customers which are well made, functional, safe and are sourced in a responsible manner. NEXT 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 believes it is important that the raw materials used in our products are sourced in a way which respects people, animals and the environment within our supply chain and have set targets for our key raw materials to be responsibly sourced by 2025.

NEXT 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.

Supporting charity and community

NEXT supports a wide range of charities and organisations, and provided the following financial support during the year:

	2019 £000	2018 £000
Registered charities	1,153	1,065
Individual requests, local and national groups and organisations	21	13
Commercial support	96	92

This support was supplemented by the following additional activities:

	2019 £000	2018 £000
NEXT charity events	29	221
Gifts in kind – product donations	2,167	1,836
Charity linked sales	309	372
Employee fundraising	61	52

Political donations

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

Environmental Matters

NEXT recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future. For several years we have measured and reported against environmental targets for NEXT in the UK and Eire. In 2016/17, we set the following five year targets which will be measured in relation to the financial years 2016/17 through to 2020/21 inclusive:

Focus	Five year target: 2016/17 to 2020/21	2018/19 progress
Energy use and emissions from stores, warehouses, distribution centres and offices.	Electricity consumption: -10% reduction in kg CO2e/m ² over the five year period.	-48%* reduction in kg CO2e/m ² .
Waste created in stores, warehouses, distribution centres and offices.	To divert more than 95% of operational waste from landfill.	95% of operational waste diverted from landfill.

* a reduction of 33% is attributable to the improvement in the emission factor provided by BEIS.

Greenhouse gas emissions

In accordance with the disclosure requirements for listed companies under the Companies Act 2006, the table below shows the Group's greenhouse gas emissions during the financial year:

	2019 Tonnes of CO2 equivalent	2018 Tonnes of CO2 equivalent
Combustion of fuel & operation of facilities (Scope 1)	46,911	48,157
Electricity, heat, steam and cooling purchased for own use (Scope 2)	70,693	89,687
Total Scope 1 and Scope 2 emissions	117,604	137,844
Intensity metric: tonnes of CO2e per £m of sales	35.89	33.48

Further information regarding environmental matters are published in our Corporate Responsibility Report which can be found on our website at nextplc.co.uk/corporate-responsibility

Methodology

The methodology used to calculate our emissions is based on operational control compliance with WRI/WBCSD GHG Protocol Corporate Accounting and Reporting Standards (Revised) and has been calculated using the revised carbon convention factors published by BEIS in June 2018. For International electricity, 2018 IEA Scope 2 factors have been used.

NEXT remains committed to reducing its carbon footprint by reducing energy consumption throughout its operations, minimising and recycling waste and cutting transport emissions. Further detailed information on NEXT's global emissions footprint can be found in our Corporate Responsibility Report on our corporate website at nextplc.co.uk.

On behalf of the Board



Amanda James
Director

21 March 2019

Governance

66	Directors' Report including Annual General Meeting & Other Matters
72	Directors' Responsibilities Statement
73	Corporate Governance
79	Nomination Committee Report
80	Audit Committee Report
85	Remuneration Report
107	Independent Auditor's Report

DIRECTORS' REPORT

Directors and Officers

Michael Roney
CHAIRMAN

Michael joined the Board as Deputy Chairman in February 2017 and became Chairman in August 2017. He is also Chairman of Grafton Group plc and a non-executive director of US firm Brown-Forman Corporation. Michael has extensive business experience; he was previously the Chief Executive of Bunzl plc from 2005 until his retirement in April 2016, Chief Executive of Goodyear Dunlop Tires Europe BV and non-executive director of Johnson Matthey plc.

Lord Wolfson of Aspley Guise
CHIEF EXECUTIVE
EXECUTIVE DIRECTOR

Simon joined the Group in 1991 and was appointed Retail Sales Director in 1993. He became responsible for NEXT Directory in 1995 and was appointed to the Board in 1997 with additional responsibilities for Systems. Simon was appointed Managing Director of the NEXT Brand in 1999 and Chief Executive in 2001.

Amanda James
GROUP FINANCE DIRECTOR
EXECUTIVE DIRECTOR

Amanda joined the Group in 1995 and has led the management accounting and commercial finance teams since 2005. In 2009 Amanda was appointed Commercial Finance Director and was promoted to NEXT Brand Finance Director in 2012. Amanda has comprehensive knowledge of NEXT's operations and has played a central role in the financial management of the business.

APPOINTED TO THE BOARD
February 2017

COMMITTEE MEMBERSHIP
Remuneration and
Nomination (Chairman)

APPOINTED TO THE BOARD
February 1997

APPOINTED TO THE BOARD
April 2015

Jane Shields
GROUP SALES AND MARKETING DIRECTOR

EXECUTIVE DIRECTOR

Jane joined NEXT Retail in 1985 as a Sales Assistant in one of our London stores. Jane worked her way through store management to be appointed Sales Director in 2000, responsible for all store operations and training. In 2006 Jane was given additional responsibility for Retail Marketing and in 2010 was appointed Group Sales and Marketing Director, adding Directory and online marketing to her portfolio.

Richard Papp
GROUP MERCHANDISE AND OPERATIONS
DIRECTOR
EXECUTIVE DIRECTOR

Richard joined NEXT in 1991 as a Merchandiser. Richard worked his way through management, becoming Menswear Product Director in 2001. In 2005 he gained valuable experience in a similar role at another retailer. Richard returned to NEXT in 2006 as Group Merchandise Director, responsible for NEXT's Merchandising function, Product Systems, International Franchise, and Clearance operations. On appointment to the Board, Richard took on additional responsibility for Warehousing, Logistics and Systems within the Group.

APPOINTED TO THE BOARD
July 2013

APPOINTED TO THE BOARD
May 2018

Directors and Officers

Francis Salway
SENIOR INDEPENDENT
NON-EXECUTIVE DIRECTOR

Francis is also Chairman of Town & Country Housing Group, Chairman of the Property Advisory Group for Transport for London, a non-executive director of Cadogan Group Limited and a Visiting Professor in Practice at the London School of Economics. Formerly Chief Executive of Land Securities Group plc and past president of the British Property Federation.

APPOINTED TO THE BOARD
June 2010

COMMITTEE MEMBERSHIP
Audit, Remuneration (Chairman) and Nomination

Jonathan Bewes
INDEPENDENT
NON-EXECUTIVE DIRECTOR

After qualifying as a Chartered Accountant with KPMG, Jonathan spent 25 years in investment banking, with Robert Fleming, UBS and Bank of America Merrill Lynch. As a senior banker, he has provided advice to the Boards of many UK and overseas companies on a wide range of financial and strategic issues, including financing, M&A and general corporate matters. In April 2017 he joined Standard Chartered Bank as Vice Chairman, Corporate and Institutional Banking. Jonathan is a Fellow of the Institute of Chartered Accountants of England and Wales.

APPOINTED TO THE BOARD
October 2016

COMMITTEE MEMBERSHIP
Audit (Chairman), Remuneration and Nomination

Company Secretary
Seonna Anderson

Past Directors
Caroline Goodall
INDEPENDENT NON-EXECUTIVE DIRECTOR
APPOINTED TO THE BOARD
January 2013
RETIRED FROM THE BOARD
1 January 2019

Michael Law
GROUP OPERATIONS DIRECTOR
APPOINTED TO THE BOARD
July 2013
RETIRED FROM THE BOARD
17 May 2018

Tristia Harrison
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Tristia is Chief Executive Officer of TalkTalk Telecom Group PLC. Prior to this, she was the Managing Director of TalkTalk's consumer business when it demerged from Carphone Warehouse, whom she joined in 2002 and held a number of senior management and executive positions. Tristia is also a Trustee at Comic Relief and the national charity Ambitious about Autism.

APPOINTED TO THE BOARD
September 2018

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

Dame Dianne Thompson
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Dianne has significant senior management experience including 14 years as Chief Executive Officer of Camelot Group. During her 42 year career, she has worked in marketing for several retail companies. More recently she was Chairman of RadioCentre and a non-executive director of the Home Office. Dianne is also a non-executive director and Chairman Designate of Walker Greenbank PLC.

APPOINTED TO THE BOARD
January 2015

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

Board Committees

Audit Committee
Jonathan Bewes (Chairman)
Tristia Harrison
Francis Salway
Dame Dianne Thompson

Remuneration Committee
Francis Salway (Chairman)
Jonathan Bewes
Tristia Harrison
Michael Roney
Dame Dianne Thompson

Nomination Committee
Michael Roney (Chairman)
Jonathan Bewes
Tristia Harrison
Francis Salway
Dame Dianne Thompson

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, political donations and greenhouse gas emissions are given in the Strategic Report. Information on financial instruments and the use of derivatives is given in Notes 25 to 28 of the financial statements.

ANNUAL GENERAL MEETING & OTHER MATTERS

Notice of the Annual General Meeting (AGM) is on pages 179 to 184 and includes the following business:

Dividends

The directors recommend that a final dividend of 110p per share be paid on 1 August 2019 to shareholders on the register of members at close of business on 5 July 2019. This resolution relates only to the final dividend. If, in line with the Company's policy of returning surplus cash generated from operations to shareholders, the directors decide to pay special dividends any such dividends will be paid by the directors as interim dividends. The announcement of any dividend will clearly indicate whether it is a special dividend or not.

The Trustee of the NEXT ESOT has waived dividends paid in the year on the shares held by it, refer to Note 24 of the financial statements.

Directors

Directors' biographies are set out on pages 66 and 67.

In accordance with the UK Corporate Governance Code 2018 (the "Code") and in line with previous years, all directors will stand for election or re-election, at this year's AGM. Each of the directors standing for election or re-election has undergone performance evaluation. This individual performance evaluation was achieved through a combination of an externally facilitated Board evaluation (see page 76 for details) in addition to regular formal and informal reviews carried out by the Chairman, Senior Independent Director and Chief Executive. Each director has demonstrated that they remain committed to their role (including making sufficient time available for Board and Committee meetings and other duties) and that they continue to be an effective and valuable member of the Board.

The Board is satisfied that each non-executive director offering themselves for election or re-election is independent in both character and judgement, and that their experience, knowledge and other business interests enable them to contribute significantly to the work and balance of the Board. A summary of the broad range of skills, knowledge and experience of the directors is provided on page 79.

Francis Salway is the longest serving non-executive director, having been appointed in June 2010. Francis is Chairman of the Remuneration Committee and will play an important role during 2019 in ensuring an appropriate element of continuity and experience in the review of the Remuneration Policy ahead of the Board seeking shareholder approval for a revised Remuneration Policy at the 2020 AGM. It is intended that Francis will stand down from the Board immediately after the May 2020 AGM, and a replacement non-executive director will be appointed in due course.

Tristia Harrison was appointed as a non-executive director on 25 September 2018 and will be subject to election by shareholders at the 2019 AGM. Tristia has wide ranging commercial experience from a career in consumer companies. Further details about the appointment of Tristia Harrison are provided in the Nomination Committee Report on page 79.

The interests of the directors who held office at 26 January 2019 and their connected persons are shown in the Remuneration Report on page 94.

Auditor

PricewaterhouseCoopers LLP has expressed its willingness to continue in office as auditor and resolution 13 proposes that it be re-appointed at the 2019 AGM. This resolution also proposes that the auditor's remuneration be determined by the directors. In practice, the Audit Committee will consider and approve the audit fees on behalf of the Board in accordance with the Competition and Markets Authority Audit Order.

Renewal of the powers of the Board to allot shares

This ordinary resolution 14(a)(i) seeks authority to allow the directors to allot ordinary shares up to a maximum nominal amount of £4,500,000, representing approximately one third of the Company's existing issued share capital as at 20 March 2019. In accordance with institutional guidelines, resolution 14(a)(ii) will also allow directors to allot further ordinary shares, in connection with a pre-emptive offer by way of a rights issue, up to a total maximum nominal amount of £9,100,000, representing approximately two thirds of the Company's existing issued share capital as at that date. As at 20 March 2019 (being the latest practicable date prior to publication of this document) the Company's issued share capital amounted to £13,758,233 comprising 137,582,327 ordinary shares of 10 pence each, none of which are held in treasury. The directors have no present intention of exercising this authority, however, the Board wishes to ensure that the Company has maximum flexibility in managing the Group's capital resources. The authority sought under this resolution will expire at the conclusion of the AGM in 2020 or, if earlier, 16 August 2020.

Authority to disapply pre-emption rights

In special resolution 15 the directors are seeking authority to allot equity securities for cash without first offering them to existing shareholders in proportion to their holdings. This resolution limits the aggregate nominal value of ordinary shares which may be issued by the directors on a non-pre-emptive basis to £687,000, representing 5% of the issued ordinary share capital of the Company as at 20 March 2019 (excluding treasury shares). This authority also allows the directors, within the same aggregate limit, to sell for cash, shares that may be held by the Company in treasury.

Special resolution 16 seeks separate and additional authority to allot up to an additional 5% of the issued ordinary share capital of the Company on a non-preemptive basis in connection with an acquisition or specified capital investment (within the meaning given in the Pre-Emption Group's Statement of Principles) which is announced at the same time as the allotment, or which has taken place in the six month period before and is disclosed in the announcement of the allotment.

In accordance with the Pre-Emption Group's Statement of Principles, the directors do not intend to issue more than 7.5% of the share capital of the Company for cash (excluding treasury shares) under this or previous authorities in any rolling three year period without prior consultation with shareholders, except in connection with an acquisition or specified capital investment.

The directors do not have any present intention of exercising this authority which will expire at the AGM in 2020 or, if earlier, 16 August 2020.

On-market purchase of the Company's own shares

NEXT has been returning capital to its shareholders through share repurchases as well as special and ordinary dividends since March 2000 as part of its strategy for delivering sustainable long term returns to shareholders. Over this period, and up to 20 March 2019, NEXT has returned over £4.2bn to shareholders by way of share buybacks and over £3.5bn in dividends, of which £0.9m comprised special dividends. This buyback activity has enhanced Earnings Per Share, given shareholders the opportunity for capital returns (as well as dividends) and has been transparent to the financial markets. Share buybacks have not been made at the expense of investment in the business. Over the last five years, NEXT has invested over £760m in capital expenditure to support and grow the business.

Special resolution 17 will renew the authority for the Company to make market purchases of its ordinary shares provided that:

- the aggregate number of ordinary shares authorised to be purchased shall be the lesser of 20,637,000 ordinary shares of 10p each (being less than 15% of the issued share capital at 20 March 2019) and no more than 14.99% of the issued ordinary share capital outstanding at the date of the AGM, such limits to be reduced by the number of any shares to be purchased pursuant to special resolution 18: Off-market purchases of own shares, see below;
- the payment per ordinary share is not less than 10p and is an amount not more than the higher of: (i) 105% of the average of the middle market price of the ordinary shares of the Company according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share of the Company and the highest current independent bid for an ordinary share of the Company as derived from the London Stock Exchange Trading system; and
- the renewed authority will expire at the AGM in 2020 or, if earlier, 16 August 2020.

The directors intend that this authority will only be exercised if doing so will result in an increase in Earnings Per Share and, being in the interests of shareholders generally, it is considered to promote the success of the Company. The directors will also give careful consideration to financial gearing levels of the Company and its general financial position. The purchase price would be paid out of distributable profits. It is the directors' present intention to cancel any shares purchased under this authority.

The repurchase of ordinary shares would give rise to a stamp duty liability of the Company at the rate currently of 0.5% of the consideration paid.

The Company has no warrants in issue in relation to its shares and no options to subscribe for its shares outstanding. Exercise of all outstanding employee share options and share awards will be satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 24 of the financial statements).

Off-market purchases of own shares

The directors consider that share buybacks are an important means of returning value to shareholders and maximising sustainable long term growth in Earnings Per Share. Contingent contracts for off-market share purchases offer a number of additional benefits compared to on-market share purchases:

- Contingent contracts allow the Company to purchase shares at a discount to the market price prevailing at the date each contract is entered into. No shares have been bought back under contingent purchase contracts pursuant to the authority granted at the 2018 AGM up to 20 March 2019.
- Low share liquidity can often prevent the Company from purchasing sufficient numbers of shares on a single day without risk of affecting the prevailing market price. Contingent contracts enable the Company to purchase shares over time without risk of distorting the prevailing share price, and also spread the cash outflow.
- Contingent contracts entered into prior to any closed period allow the Company to take delivery of shares during these periods.
- Competitive tendering involving up to five banks is used which minimises the risk of hidden purchase costs. The pricing mechanism ensures the Company retains the benefit of declared and forecast dividends.
- The Company would also have the option to set a suspension price in individual contracts whereby they would automatically terminate if the Company's share price was to fall.

As with any share buyback decision, the directors would use this authority only after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities and the overall financial position of the Company. The directors will only purchase shares using such contracts if, based on the contract discounted price (rather than any future price), it is earnings enhancing and promotes the success of the Company for the benefit of its shareholders generally. It is the directors' present intention to cancel any shares purchased under this authority.

Special resolution 18 will give the Company authority to enter into contingent purchase contracts with any of Goldman Sachs International, UBS AG London Branch, Deutsche Bank AG, HSBC Bank plc and Barclays Bank plc under which shares may be purchased off-market at a discount to the market price prevailing at the date each contract is entered into. The maximum which the Company would be permitted to purchase pursuant to this authority would be the lower of 3,000,000 shares or a total cost of £200m.

The principal features of the contracts are set out in the appendix to the Notice of the AGM. Copies of the agreements the Company proposes to enter into with any of the banks (the Programme Agreements) will be available for inspection at the registered office of the Company, and at the offices of

Slaughter and May, One Bunhill Row, EC1Y 8YY during normal working hours from the date of the Notice of the AGM up to the date of the AGM and at the Meeting itself.

Notice of general meetings

In accordance with the Companies Act 2006 (the "2006 Act"), the notice period for general meetings (other than an AGM) is 21 clear days' notice unless the Company:

- (i) has gained shareholder approval for the holding of general meetings on 14 clear days' notice by passing a special resolution at the most recent AGM; and
- (ii) offers the facility for all shareholders to vote by electronic means.

The Company would like to preserve its ability to call general meetings (other than an AGM) on 14 clear days' notice. This shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole.

Resolution 19 seeks such approval and, should this resolution be approved, it will be valid until the end of the next AGM. This is the same authority that was sought and granted at last year's AGM.

Recommendation

The Board are of the opinion that all resolutions which are to be proposed at the 2019 AGM are in the best interests of its shareholders as a whole and, accordingly, unanimously recommend that they vote in favour of all the resolutions.

Share capital and major shareholders

Details of the Company's share capital are shown in Note 21 of the financial statements.

The Company was authorised by its shareholders at the 2018 AGM to purchase its own shares. During the year the Company purchased and cancelled 6,276,572 ordinary shares with a nominal value of 10p each (none of which were purchased off-market), at a cost of £324.2m and representing 4.3% of its issued share capital at the start of the year.

At the financial year end 26 January 2019, the Company had 138,605,633 shares in issue. Subsequent to the end of the financial year and before the start of the closed period, the Company purchased for cancellation 1,023,306 of its own shares at a cost of £50.2m. As at 20 March 2019 the number of shares in issue was 137,582,327.

As at 26 January 2019, the Company had been notified under the Disclosure and Transparency Rules (DTR 5) of the following notifiable interests in the Company's issued share capital. The information provided below was correct at the date of notification. These holdings are likely to have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed:

	Notifications received as at 26 January 2019			
	No. of voting rights at date of notification	% of voting rights at date of notification	Nature of holding	Date of notification
FMR LLC (Fidelity)	15,333,588	10.97	Indirect interest	3 October 2018
BlackRock, Inc.	15,449,829	9.97	Indirect interest	8 January 2014
Invesco Limited	13,738,106	9.76	Indirect interest	8 June 2018
NEXT plc Employee Share Option Trust	4,484,874	3.05	Direct interest	8 May 2017

The following notification was received after 26 January 2019 up to 20 March 2019:

	No. of voting rights at date of notification	% of voting rights at date of notification	Nature of holding	Date of notification
FMR LLC (Fidelity)	15,074,200	10.95	Indirect interest	15 February 2019

Additional information

Registered in England & Wales - Company Number: 04412362

Shareholder and voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. Voting on all resolutions at the 2019 AGM will be by way of a poll. On a poll, every member present in person or by proxy has one vote for every ordinary share held or represented. The Notice of Meeting on pages 179 to 184 specifies deadlines for exercising voting rights.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights. There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods) and requirements of internal rules and procedures whereby directors and certain employees of the Company require prior approval to deal in the Company's securities.

The Company's Articles may only be amended by a special resolution at a general meeting. Directors are elected or re-elected by ordinary resolution at a general meeting; the Board may appoint a director but anyone so appointed must be elected by ordinary resolution at the next general meeting. Under the Articles, directors retire and may offer themselves for re-election at a general meeting at least every three years. However, in line with the provisions of the Code, all directors will stand for re-election at the 2019 AGM.

Change of control

The Company is not party to any significant agreements which take effect, alter or terminate solely upon a change of control of the Company. However, in the event of a change of control, the Company's medium term borrowing facilities will be subject to early repayment in full if a majority of the lending banks give written notice or in part if a lending bank gives written notice following a change of control.

In addition, the holders of the Company's corporate bonds will be entitled to call for redemption of the bonds by the Company at their nominal value together with accrued interest in the following circumstances:

- should a change of control cause a downgrading in the credit rating of the Company's corporate bonds to sub-investment grade and this is not rectified within 120 days after the change of control; or
- if already sub-investment grade, a further credit rating downgrade occurs and this is not rectified within 120 days after the change of control; or
- if the bonds at the time of the change of control have no credit rating and no investment grade rating is assigned within 90 days after the change in control.

The Company's share option plans, and its Long Term Incentive Plan, contain provisions regarding a change of control. Outstanding options and awards may vest on a change of control, subject to the satisfaction of any relevant performance conditions.

Directors' service contracts are terminable by the Company on giving one year's notice. There are no agreements between the Company and its directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

Corporate governance

The corporate governance statement as required by the UK Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 7.2.6) comprises the Additional Information section of the Directors' Report and the Corporate Governance statement included in this Annual Report.

The following disclosures are required under Listing Rule 9.8.4 R:

Publication of unaudited financial information	In January 2019, NEXT published a Profit Before Tax (PBT) central guidance forecast for the year to January 2019 of £723m. Actual PBT for the period was £723m.
Director waiver of emoluments	Lord Wolfson waived his entitlement to part of his annual bonus payment (see page 85).
Shareholder waivers of dividends	The NEXT Employee Share Ownership Trust waived its rights to receive dividends during the year.

No further LR 9.8.4 disclosures are required.

By order of the Board



Amanda James
Group Finance Director

21 March 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

Directors' Responsibilities

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 Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent Company 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 Group and Parent Company and of the profit or loss of the Group and Parent 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 IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, 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 Group and Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company's position and performance, business model and strategy.

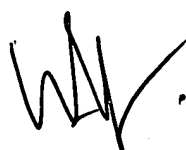
We confirm that to the best of our knowledge:

- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

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

On behalf of the Board



Lord Wolfson of Aspley Guise
Chief Executive



Amanda James
Group Finance Director

21 March 2019

CORPORATE GOVERNANCE REPORT

Chairman's Introduction

The retail environment has continued to be challenging during the year, and looks set to remain so for the foreseeable future. In an ever changing world, it is vital that our directors provide a balanced and appropriately skilled Board who work together to ensure they are focussed on achieving NEXT's business objectives.

Changes to the Board

As disclosed in last year's Annual Report, Michael Law, Group Operations Director who had been with NEXT for 23 years, retired from the Board at the AGM in May 2018. Richard Papp, Group Merchandise Director with 25 years' service at NEXT, succeeded Michael on the Board as Group Merchandise and Operations Director.

In September 2018 we were pleased to appoint Tristia Harrison as a non-executive director. Tristia brings a broad range of relevant experience in consumer facing businesses and is a very good addition to our Board. More details of Tristia's appointment can be found on page 79. In January 2019 Caroline Goodall stepped down from the Board after serving 6 years as a non-executive director and latterly as Chair of the Remuneration Committee. I would like to thank Caroline for her contribution and commitment to NEXT.

Whilst there have been a number of Board changes over the year, the Board has remained balanced and well-functioning.

Board effectiveness and culture

During the year the annual effectiveness review of our Board and Committees was facilitated by an external third party. Details of this review can be found on page 76. One of the observations from the reviewer was that the NEXT culture is one of openness and transparency, with a strong focus on high expectations and standards, honesty and integrity. The executive directors set this tone from the top by adopting a very hands-on approach to driving forward operational business strategies. They work alongside their business colleagues on a day-to-day basis and attend all of the key trading and decision making meetings. This approach serves to align not only our business culture but also our risk management framework and risk appetite.

Compliance with 2016 UK Corporate Governance Code

The Board considers that the Company complied throughout the year under review with the provisions set out in the 2016 UK Corporate Governance Code (the "Code") which is the version of the Code that applies to its 2018/19 financial year, except for a period of 4 days in respect of Provision B.1.2. Provision B.1.2 requires that at least half of the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. For the 4 days between the appointment of Richard Papp on 14 May 2018 and the retirement of Michael Law on 17 May 2018, less than half of the Board were independent non-executive directors.

Implementation of the new 2018 UK Corporate Governance Code

The Board is mindful of its governance responsibilities and welcomes the new Financial Reporting Council's 2018 Corporate Governance Code. The Board and Committees have spent significant time during 2018/19 considering how to build upon and further strengthen our existing good governance framework to meet the new requirements of the Code.

Actions undertaken by the Board to ensure NEXT will be compliant with the new Code include:

- Plans are well advanced to strengthen the Board's direct engagement with our workforce, who are central to the success of NEXT. There are already a number of effective workforce engagement mechanisms in place across the Group, including in our overseas operations, which will be enhanced during 2019/20. Meetings with employee representatives will be attended by our Chief Executive, a non-executive director, the HR director and other senior management.
- Feedback relating to workforce engagement and other key information will be reported to the Board and Committees as part of their responsibilities under the new Code.
- We have taken practical steps to embed considerations relating to section 172 of the Companies Act 2006 in the decision making throughout the Company. These steps include refresher training sessions for the Board led by our external lawyers and Company Secretary, reviewing the content of Board papers to ensure the Board is getting the information it needs to discharge its section 172 duties, and consideration of our policies and processes below Board level to ensure a consistent approach to support the Board's section 172 responsibilities.
- Our external Board appointments procedure now requires the Board to give prior approval to new appointments, taking into account other appointments and time commitments.

The Board maintains a strong commitment to its corporate governance responsibilities. This commitment ensures the Board remains focussed on the interests of stakeholders and the Group's objectives of delivering sustainable long term shareholder value.



Michael Roney

Chairman

21 March 2019

CORPORATE GOVERNANCE REPORT

The following sections detail how the Company has complied with the Code, which is available from the Financial Reporting Council website at www.frc.org.uk.

Disclosures required by the Disclosure Guidance and Transparency Rules DTR 7.2.6, with regard to share capital are presented in the “Share capital and major shareholders” and “Additional information” sections of the Directors’ Report on pages 70 and 71. Disclosures required by DTR 7.2.8 relating to diversity policy are presented in the Nomination Committee Report on page 79.

Directors’ biographies and membership of Board Committees are set out on pages 66 and 67.

A. Leadership

A.1 Role of the Board

The Board has a formal schedule of matters reserved for it and holds regular meetings where such matters are discussed and approved, including investments, significant items of capital expenditure, share buybacks, dividend and treasury policies. It is also responsible for:

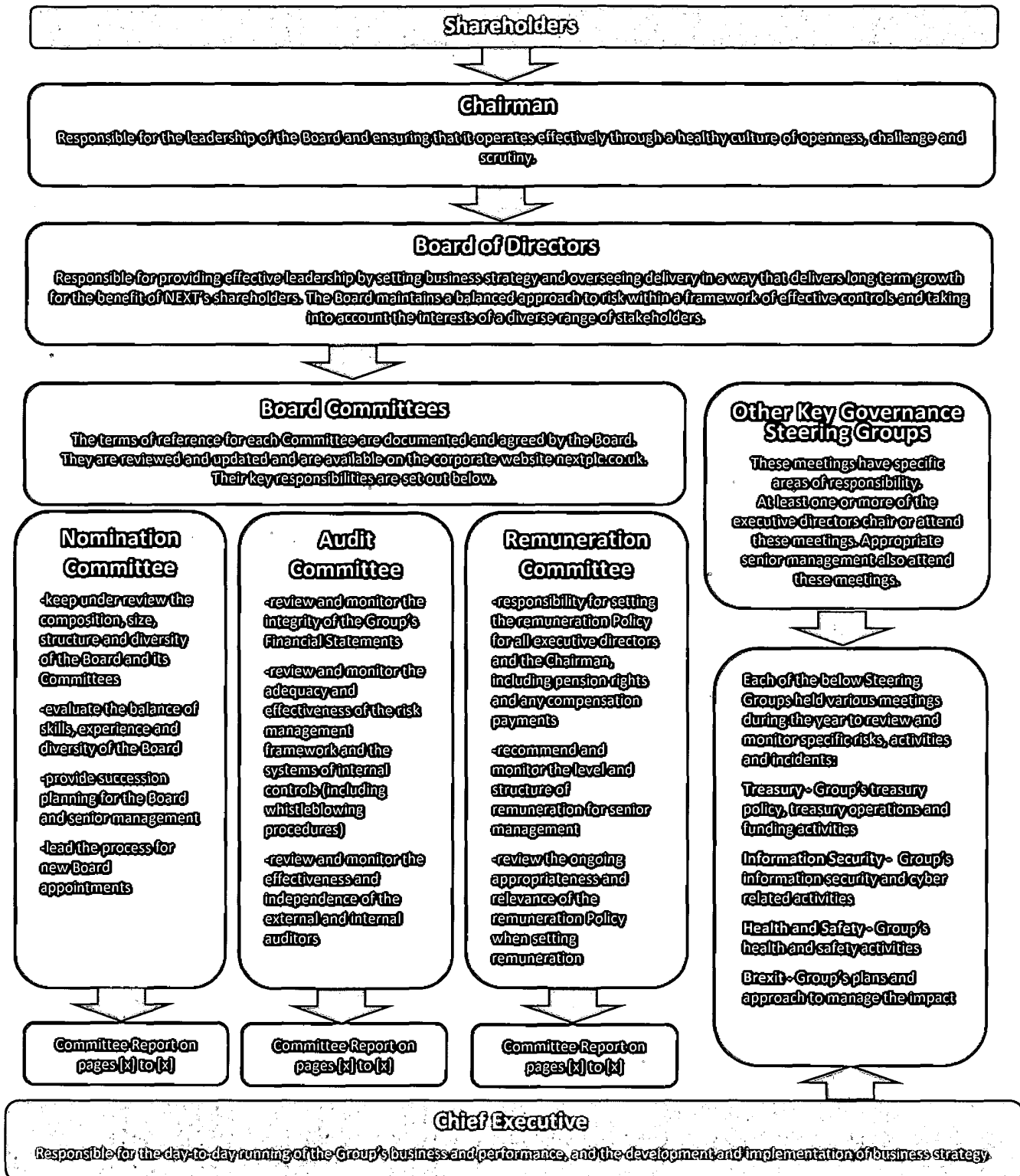
- The long term success of the Company, setting and executing the business strategy and overseeing delivery in a way that enables sustainable long term growth.
- Providing effective leadership whilst delegating more detailed matters to its Committees and officers including the Chief Executive.
- Setting and monitoring the Group’s risk appetite and the system of risk management and internal control and for monitoring implementation of its policies by the Chief Executive. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.
- Approving semi-annual Group budgets and subsequent regular review of performance against budget including explanation of significant variances. Forecasts for each half year are revised and reviewed monthly.

Certain other important matters are subject to weekly or monthly reporting to the Board or Board Committee, including sales, treasury operations and capital expenditure programmes.

Governance framework and culture

The structure of the Board is designed to ensure that it focuses on strategy together with the monitoring of performance, control and risk. We believe our governance structure, as outlined below, facilitates the operation of an open and straightforward culture, and is not burdened by complex hierarchies and over delegation of responsibilities.

Overview of Governance structure



Management delegation

The Chief Executive has delegated authority for the day-to-day management of the business to operational management comprising other executive directors and senior management who have responsibility for their respective areas. The most important management meetings are the weekly NEXT Brand trading and capital expenditure meetings which consider the performance and development of the NEXT Brand through its different distribution channels. These and other senior management meetings cover risk management of business areas in respect of the NEXT Brand, including product, sales, customer experience, property and stores, warehousing, systems and personnel. Key performance indicators are monitored daily, weekly and monthly.

Board and Committees

As detailed in the governance structure diagram on page 74 the Board has appointed Committees to carry out certain aspects of its duties. Each is chaired by a different director and has written terms of reference which are available on our corporate website nextplc.co.uk.

The table below shows the attendance at Board and Committee meetings during the year to 26 January 2019. All of the non-executive directors are members of the Nomination, Audit and Remuneration Committees. We believe that this provides an important opportunity for our non-executive directors to deepen their understanding of the NEXT business, control and risk environment and provide them with valuable information and insight. These factors positively contribute to the value they add individually and collectively to the effective and efficient running of the Board and its Committees.

Current Directors	Role	Board	Nomination	Audit	Remuneration
Number of meetings held in the year		8	3	4	5
Lord Wolfson	Chief Executive	8/8	–	–	–
Amanda James ¹	Group Finance Director	8/8	–	–	–
Richard Papp ²	Group Operations & Merchandising Director	6/6	–	–	–
Jane Shields	Group Sales & Marketing Director	8/8	–	–	–
Michael Roney ¹	Chairman	8/8	3/3	–	5/5
Francis Salway	Senior Independent Director	8/8	3/3	4/4	5/5
Jonathan Bewes	Non-executive Director	8/8	3/3	4/4	5/5
Tristia Harrison ³	Non-executive Director	2/2	1/1	2/2	2/2
Dame Dianne Thompson	Non-executive Director	8/8	3/3	4/4	5/5
Former Directors who served during 2018/19					
Michael Law ⁴	Group Operations Director	2/2	–	–	–
Caroline Goodall ⁵	Non-executive Director	6/7	2/2	4/4	4/4

1. Michael Roney and Amanda James are not members of the Audit Committee, however they attended all Audit Committee meetings during the year by invitation

2. Richard Papp was appointed to the Board on 14 May 2018

3. Tristia Harrison was appointed to the Board on 25 September 2018

4. Michael Law retired from the Board on 17 May 2018

5. Caroline Goodall retired from the Board on 1 January 2019

Due to unavoidable circumstances Caroline Goodall was unable to attend the May 2018 Board meeting and AGM. In advance of the Board meeting Caroline reviewed the meeting papers and communicated her comments to the Company Secretary and Chairman who ensured these were considered at the meeting. Caroline was also provided with an update after the meeting.

A.2 Division of responsibilities

There is a clear division of responsibilities between the offices of Chairman and Chief Executive, which is set out in writing and agreed by the Board. The Chairman manages the Board to ensure that the Group has appropriate objectives and an effective strategy; that there is a high calibre Chief Executive with a team of executive directors able to implement the strategy; that there are procedures in place to inform the Board of performance against objectives; and that the Group is operating in accordance with a high standard of corporate governance.

The Board sets objectives and annual targets for the Chief Executive. The Board is responsible for general policy on how these objectives are achieved and delegates the implementation of that policy to the Chief Executive. The Chief Executive is required to report at each Board meeting all material matters affecting the Group and its performance.

A.3 The Chairman

The Chairman, Michael Roney, sets the Board's agenda and is also responsible for promoting a healthy culture of openness, challenge and scrutiny, and ensuring constructive relations between executive and non-executive directors. Michael met the independence requirements set out in the UK Corporate Governance Code on appointment in 2017. Michael's other significant commitments are noted on page 66, and the Board considers that these are not a constraint on his agreed time commitment to the Company.

A.4 Non-executive directors

Francis Salway is our Senior Independent Director. The Chairman held meetings with the non-executive directors without the executives present.

B. Effectiveness

B.1 Composition of the Board

The Board currently includes four independent non-executive directors (including the Senior Independent Director) and the Chairman who all bring considerable knowledge, judgement and experience to the Group. Refer to the current director skills matrix included in the Nomination Committee Report on page 79. As is best practice, we continually assess and refresh the Board to ensure we maintain an appropriate balance of skills and experience and the Board has a good record of recruiting new non-executive directors at regular intervals to achieve appropriate rotation and continuity.

There were a number of changes to the Board during the year. Details are provided in the Nomination Committee Report on page 79.

Francis Salway is our longest serving non-executive director, having been appointed to the Board in June 2010 and elected at the 2011 AGM. The Code requires that any term beyond six years for a non-executive director should be subject to a particularly rigorous review, and should take into account the need for progressive refreshing of the Board. After giving thorough consideration to the matter, the Board consider that Francis Salway's independence, skills and experience allow him to continue to make a very effective contribution as a non-executive director, Senior Independent Director and Remuneration Committee Chair. Following Caroline Goodall's retirement from the Board, Francis who has served as a member of the Remuneration Committee since his appointment to the Board in 2010, took up the position of Remuneration Committee Chair with effect from 1 January 2019, thereby providing continuity. It is intended that Francis will stand down from the Board immediately after the May 2020 AGM, and a replacement non-executive director will be appointed in due course.

The Board also considers that all of its non-executive directors are independent in character and judgement, and their knowledge, diversity of experience and other business interests continue to enable them to contribute significantly to the work of the Board.

B.2 Appointments to the Board

For information on the procedure for appointment of new directors to the Board, and the role of the Nomination Committee in this process, refer to the Nomination Committee Report on page 79.

B.3 Commitment

The Board is satisfied that each of the directors is able to allocate sufficient time to the Company to discharge their responsibilities effectively. No executive director holds any non-executive directorships outside the Group.

Contracts and letters of appointment of directors are made available at the AGM, and are available for inspection at the Company's registered office during normal business hours or on request.

B.4 Development

On joining the Board, new members receive a personalised induction, tailored to their experience, background and understanding of the Group's operations. The induction programme includes:

- Visits to stores and warehouses
- Attendance at key operational meetings and our biannual Retail stores conferences
- Meetings with senior managers, other colleagues and key external parties including the external audit partner
- A briefing from the Company Secretary, the Group's corporate broker and external lawyers on the duties of a public company director
- Access to past Board and Committee papers

Individual training and development needs are reviewed as part of the annual Board evaluation process and training is provided where appropriate, requested or a need is identified. All directors receive frequent updates on a variety of issues relevant to the Group's business, including legal, regulatory and governance developments, with visits to stores and warehouse operations organised periodically to assist with directors' understanding of the operational aspects of the business.

B.5 Information and support

There is a regular flow of written and verbal information between all directors irrespective of the timing of Board meetings. The Company Secretary attends all Board meetings and is responsible for advising the Board on corporate governance matters and facilitating the flow of information within the Board.

We have an open culture and our non-executive directors meet on a formal and informal basis with a broad range of NEXT management and have unrestricted access to the business and its employees.

Should directors judge it necessary to seek independent advice about the performance of their duties with the Company, they are entitled to do so at the Company's expense. Details of professional assistance in relation to Remuneration Policy matters are shown on page 99.

B.6 Evaluation

During the year an external evaluation of the Board, its Committees and directors was undertaken with the assistance of Belinda Hudson. Belinda does not have any other connection with the Group or any of its directors. The review covered all aspects of the effectiveness of the Board and its Committees including composition, experience, dynamics, the Chairman's leadership, and the extent to which the Board fulfils its role and responsibilities with particular regard to strategy, oversight of risk and succession planning.

The evaluation process took place in the final quarter of the year. Following a briefing provided by the Chairman and Company Secretary, Belinda reviewed all Board and Committee papers produced during the year, carried out interviews with each director, the external audit partner and the Company Secretary, and observed the November 2018 Board and Audit Committee meetings.

The review highlighted that the Board is operating effectively, offering good challenge and adding value. Examples of areas positively reported included:

- The process and transition following the appointment of the new Chairman in 2017 were described as 'seamless' with good relationships based on mutual trust and respect being developed with other Board members
- The Chief Executive is open and transparent and views the Board as a positive asset with a strong focus on creating long-term sustainable value
- Positive dynamics and relationships
- Committed non-executive directors who bring a broad range of useful and relevant experience

The key areas identified as possible opportunities to develop the Board's effectiveness further include:

- Devoting more time at the Board level to broad ranging discussion of the risk environment, acknowledging this does happen at Audit Committee level, and developing a summary Group risk profile
- Reviewing certain topics where the Board could usefully spend more time and benefit from additional information, e.g. workforce strategy, culture and employee engagement
- Introducing a greater degree of formality to the discussion of matters such as succession planning and leadership development

The Chairman, Chief Executive and Company Secretary are putting in place appropriate action plans in response to the evaluation findings and will review progress during the course of 2019/20.

The Senior Independent Director leads the appraisal of the performance of the Chairman through discussions with all the directors individually. The Chairman and the Senior Independent Director appraise the performance of the Chief Executive. The performance of the executive directors is monitored throughout the year by the Chief Executive and the Chairman. The Chairman also monitors the performance of the non-executive directors. The Chairman and Chief Executive provide appropriate feedback.

B.7 Re-election

The Company's Articles of Association require directors to submit themselves for re-election by shareholders at least once every three years. However, the Board has determined that all directors will stand for re-election or election at each AGM in accordance with the Code.

C. Accountability

C.1 Financial and business reporting

Please refer to:

- Page 72 for the Board's statement on the Annual Report and Accounts being fair, balanced and understandable;
- Page 113 for details of the Independent Auditor's responsibilities; and
- Pages 50 and 51 of the Strategic Report for an explanation of the Company's business model and strategy for delivering the objectives of the Company.

Going concern and viability assessment

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report, which also describes the Group's financial position, cash flows and borrowing facilities. Further information on these areas is detailed in the financial statements. Information on the Group's financial management objectives, and how derivative instruments are used to hedge its capital, credit and liquidity risks is provided in Note 27 of the financial statements.

The directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group 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. The directors have also assessed the prospects of the Company over a three year period. Further details of the viability assessment are provided on page 59.

C.2 Risk management and internal control

The Board is responsible for the Group's risk management process and has delegated responsibility for its implementation to the Chief Executive and senior management best qualified in each area of the business. The Board sets guidance on the general level of risk which is acceptable and has a considered approach to evaluating risk and reward and promoting a risk aware culture throughout the business.

The Board has carried out a robust assessment of the principal risks facing the Company and has also conducted an annual review of the effectiveness of the systems of internal control during the year. Please refer to page 54 in the Strategic Report for further information. Risk management and internal control is a continuous process and has been considered by the Board on a regular basis throughout the year. This includes identifying and evaluating principal risks, determining control strategies and considering how they may impact on the achievement of the business objectives. The Board promotes the development of a strong control culture within the business. The Audit Committee regularly reviews strategic and operational risk and has reviewed the principal risks (described on pages 55 to 58) and the associated controls and mitigating factors. The Audit Committee discusses these risks with the relevant directors and senior management both at Committee meetings and via other face to face meetings held during the year where required.

The Board considers that the Group's management structure and continuous monitoring of key performance indicators provide the opportunity to identify promptly any material areas of concern. Business continuity plans, procedures manuals and codes of conduct are maintained in respect of specific risk areas and business processes. The management of business risk is an integral part of Group policy and the Board will continue to develop risk management and internal controls where necessary.

The use of a Group accounting manual and prescribed reporting procedures for finance teams throughout the Group ensures that the Group's accounting policies are clearly established and consistently applied. Information is appropriately reviewed and reconciled as part of the reporting process and the use of a standard reporting package by all entities in the Group ensures that information is presented consistently to facilitate the production of the consolidated financial statements.

C.3 Audit Committee and auditors

For further information on the Company's compliance with the Code provision relating to the Audit Committee and auditors, please refer to the Audit Committee Report on pages 80 to 84.

D. Remuneration

For further information on the Company's compliance with the Code provision relating to remuneration, please refer to the Remuneration Report on pages 85 to 106.

E. Relations with shareholders

E.1 Dialogue with shareholders

Significant time and effort is invested in providing detailed and transparent information to current and potential shareholders and in maintaining regular and effective dialogue with them. Full year and other public announcements are presented in a consistent format with a particular focus on making the presentations as meaningful, understandable, transparent and comparable as possible. Such information is also made publicly available via our corporate website nextplc.co.uk.

During the year, the Chief Executive and Group Finance Director regularly held one-to-one meetings, calls, roadshows and conferences with institutional investors.

There is also regular communication with institutional investors by other Board members, the Company Secretary and senior management. During 2018 we have engaged with investors on a range of topics, including:

- Governance, including Board composition and executive remuneration
- Human rights and the environment
- Sustainability

The Board receives regular information on investor views through a number of different channels:

- The Company's largest shareholders are invited to the annual and half year results presentations, at which executive and non-executive directors are present
- The Group's corporate broker provides written feedback after full and half year results announcements and investor roadshows
- Non-executive directors who have direct dialogue with shareholders
- Analyst reports
- Shareholder feedback reports and statements made by representative associations

Whilst the Board recognises that it is primarily accountable to the Company's shareholders, the views of other providers of capital and key stakeholders are also considered.

E.2 Constructive use of the Annual General Meeting

All shareholders have an opportunity to ask questions or represent their views formally to the Board at the AGM, or with directors after the meeting.

Other disclosures

Directors' conflicts of interest

In accordance with the Company's Articles of Association, the Board has a formal system in place for directors to declare situational conflicts to be considered for authorisation by those directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted directors consider the situation in conjunction with their general duties under the Companies Act 2006. They may impose limits or conditions when giving an authorisation or subsequently if considered appropriate. Any situational conflicts considered by the Board, and any authorisations given, are recorded in the Board minutes and in a register of conflicts which is reviewed annually by the Board.

NOMINATION COMMITTEE REPORT

Membership and meetings

During the year the Committee comprised the following independent non-executive directors:

Member
Michael Roney (Committee Chairman)
Caroline Goodall (until January 2019)
Jonathan Bewes
Tristia Harrison (from September 2018)
Francis Salway
Dame Dianne Thompson

Refer to the Committee member attendance table shown on page 75. Lord Wolfson also attends the Nomination Committee meetings by invitation. In addition to formal meetings during the year, there were regular informal discussions on succession plans and new appointments to the Board.

The Committee's roles and responsibilities are covered in its Terms of Reference which are available on our corporate website nextplc.co.uk.

Annual evaluation of the Nomination Committee's performance is undertaken as part of the Board evaluation process. During 2018/19 this process was externally facilitated and further details are included on page 76.

Committee activities in 2018/19

Succession planning

During the year the Committee considered the succession arrangements for the Board. They reviewed a skills matrix which captures the core skills, knowledge, experience and diversity represented by the Board members. This provides a framework for considering the skills the Committee may want to focus on when preparing role specifications and evaluating potential new Board candidates.

Our current Board members each bring a broad range of individual skills, knowledge and experience. A summary of the skills of our directors is shown below.

Skills and experience	Number of directors							
	1	2	3	4	5	6	7	8
Retail/Commercial/Operational	x	x	x	x	x	x	x	x
Cyber risk/Digital	x	x						
Brand/Marketing	x	x	x	x				
Former/Current CEO	x	x	x	x	x			
Property	x	x						
Listed market experience and governance	x	x	x	x	x	x		
Finance/Accounting	x	x						

Board appointments

The Committee adopts a formal and transparent procedure for the appointment of new directors to the Board.

External consultants are used to assist in identifying suitable external Board candidates, based on a written specification for each appointment. The Chairman is responsible for providing a shortlist of candidates for consideration by the Nomination Committee which then makes its recommendation for final approval by the Board. The Nomination Committee is led by the Senior Independent Director when dealing with the appointment of a successor to the Board chairmanship.

Board appointments in the year

In February 2018, the Company announced that Michael Law would step down from the Board at the close of the 2018 AGM, prior to retiring from the business in July 2018. At the same time, we also announced that Richard Papp would be appointed as an executive director with effect from 14 May

2018. NEXT has a good track record of internal promotions to the Board and has not made an external appointment of an executive director for over 29 years. Richard was elected at the 2018 AGM as Group Merchandise and Operations Director.

In September 2018, the Company announced that Caroline Goodall would step down from her non-executive director position on the Board at the beginning of January 2019. At the same time, we also announced that Tristia Harrison had been appointed as a non-executive director.

An external search firm, Heidrick & Struggles/JCA Group (JCA), was engaged to assist and advise the Committee on the search and appointment process. In consultation with the Committee Chairman and Company Secretary, JCA designed a comprehensive specification for the desired candidate. The role brief was aligned to the desired Board and Committee composition, with reference to the skills matrix.

Detailed candidate profiles were prepared by JCA for consideration and to agree a list of the strongest candidates. The Chairman, Michael Roney, and Senior Independent Director, Francis Salway, met and interviewed six short-listed candidates and agreed on two short-listed candidates. An interview process was used to assess the candidates together with meetings held with the executive directors. Following consideration of interview and meeting feedback it became clear that Tristia Harrison was the most suitable candidate and her experience and attributes made her an excellent candidate. A due diligence and referencing process was completed satisfactorily and the Nomination Committee recommended to the Board that Tristia be appointed as a non-executive director of NEXT.

The Board approved the appointment of Tristia and she joined the Board and all of the Board Committees.

Crisis situation succession

During the year the Committee also considered crisis situation succession arrangements in the event of sudden changes in the availability of executives and key operational director personnel. The business has historically successfully promoted from within the business to both operational director and executive director positions and the Committee was able to clearly identify potential candidates to immediately cover for key personnel should the need arise.

Diversity

Appointments to the Board, as with other positions within the Group, are made on merit according to the balance of skills and experience offered by prospective candidates. NEXT acknowledges the benefits of diversity in terms of business experience and individual appointments are made irrespective of personal characteristics such as race, religion or gender. The Committee will always seek to appoint the candidate with the most appropriate skills and experience.

Employment positions throughout the Company are filled with the candidates who possess the most appropriate skills and competencies relevant for the particular job role. NEXT has a policy to treat all employees fairly and equally regardless of gender, sexual orientation, marital status, race, colour, nationality, religion, ethnic or national origin, age, disability or union membership status.

Although we do not set specific targets for diversity, women currently represent 44% of our Board. NEXT was ranked first for the second consecutive year in the 2018 Hampton-Alexander Review "FTSE Women Leaders: Improving gender balance in FTSE leadership". Further analysis of employees by gender is given in the Strategic Report on page 60.

AUDIT COMMITTEE REPORT

Chairman's Introduction

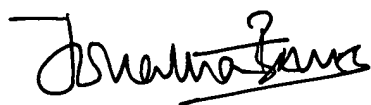
On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended January 2019.

During the year the Committee has, amongst other matters, continued its increased focus on data and cyber security risks, with one or more of these subjects considered at each of our meetings in the year. Good progress continues to be made in identifying and managing these risks, although we recognise that there must never be complacency in this fast moving and increasingly sophisticated technological environment.

The Committee has also reviewed and challenged management on the robustness and effectiveness of internal controls and risk management systems, ensuring that it discusses key matters directly with the relevant senior management where necessary.

New accounting standards which are applicable to NEXT for the first time this year, IFRS 9 "*Financial instruments*" and IFRS 15 "*Revenue from contracts with customers*", have been successfully implemented, with the Committee receiving regular progress updates during the year. With regards to IFRS 16 "*Leases*", effective for the year ending January 2020 onwards, we have quantified and disclosed the impact in relation to our current year financial statements as detailed on page 129.

I would like to thank the management team at NEXT and all Committee members for their valuable contribution and support during the year.



Jonathan Bewes
Chairman of the Audit Committee

21 March 2019

Membership and meetings

During the year the Committee comprised the following independent non-executive directors:

Member
Jonathan Bewes (Committee Chairman)
Caroline Goodall (until January 2019)
Tristia Harrison (from September 2018)
Francis Salway
Dame Dianne Thompson

Refer to the Committee member attendance table shown on page 75.

The Committee's wide range of financial and commercial skills and experience serves to provide the necessary knowledge and ability to work as an effective committee and to robustly challenge the Board and senior management as and when appropriate. The Audit Committee Chairman, a Chartered Accountant, possesses recent and relevant financial experience and the Committee as a whole continues to have competence relevant to the Retail sector.

The Committee's roles and responsibilities are covered in its Terms of Reference which are available on our corporate website nextplc.co.uk.

The Committee holds regular meetings and consults with external auditors and senior management, including internal audit. In addition, the Group Finance Director and Chairman attended all of this year's meetings. The Committee frequently requests that executive directors and senior managers attend Committee meetings in order to reinforce a strong culture of risk management and to keep the Committee up to date with events in the business.

Annual evaluation of the Audit Committee's performance is undertaken as part of the Board evaluation process; during 2018/19 this process was externally facilitated. Further details are included on page 76.

Committee activities during 2018/19

The Committee's main activities during the financial year are described in the following sections.

Review of financial statements

The Committee reviews the financial statements of the Group and assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee is satisfied that the judgements made by management are reasonable, and that suitable accounting policies have been adopted and appropriate disclosures have been made in the accounts.

The Committee's review of the half year and full year financial statements focused on the following areas of significance, all of which were discussed and addressed with our external auditor throughout the full year external audit process. There were no significant differences between management and the external auditor. The key matters of focus were:

Area of focus	Background and details	Reference to financial statements
1. Online customer receivables and related allowance for expected credit losses	Represents the largest asset class on the Group's Balance Sheet (2019: Gross value £1.4bn and allowance for expected credit losses of £166m). Based on detailed reports and through discussions with management and the external auditor, the Committee reviewed and assessed the basis and level of provisions under the new IFRS 9 "Financial instruments" standard methodology (see 'New accounting standards' table below) and their sensitivity and is satisfied that the judgements made were reasonable and appropriate. The prior year balances were prepared in accordance with IAS 39.	Note 12
2. Hedge accounting	Forward contracts and options are used to manage the Sterling cost of future product purchases; this provides certainty to the cost of purchases and therefore enables selling prices and gross margins to be set with greater certainty. Interest rate swaps are used to manage the Group's exposure to changes in interest rates. The Committee discussed the methodology used in the valuation and accounting treatment of derivative contracts with management and the external auditor. In addition, the Board reviewed and renewed the detailed operating authority framework and limits in place for execution of such arrangements.	Notes 26 and 27
3. Pension scheme funding and accounting	The Group's Balance Sheet shows a funding surplus of £125.0m (2018: £106.2m), comprised of £893.7m assets and £768.7m defined benefit pension schemes obligation. Pension scheme funding, accounting and actuarial reports have been prepared in accordance with International Accounting Standards. The Committee reviewed the actuarial assumptions underlying the calculations and was satisfied that they are reasonable. The scheme's funding position is highly sensitive to small changes in discount and inflation rates, and the funding position reported in the Group Balance Sheet does not reflect the full cost of the pension scheme on a buyout basis.	Note 19
4. Inventory valuation	The Group Balance Sheet shows a net valuation of £502.8m. The Committee reviewed and agreed the methodology for calculating the net realisable values of inventories, which has been applied consistently with the previous year.	Page 117
5. Accounting for leases	The Group is retrospectively applying IFRS 16 "Leases" with effect from the 2019/20 financial year and the expected impact on the Income Statement and Balance Sheet has been disclosed in the Group Accounting Policies section of the financial statements. The work to collect the relevant data, implement a new accounting system and agree the appropriate accounting policies has been significant. During the year the Committee regularly reviewed progress on all aspects of the IFRS 16 adoption project and is satisfied that the methodology used and the judgements and assumptions applied are reasonable.	Page 131

New accounting standards

During the year the Committee considered and agreed the approach and impact on the Group's financial statements of three new accounting standards:

New accounting standard	When effective for NEXT?	Background and details	Reference to financial statements
1. IFRS 15 "Revenue from contracts with customers"	2018/19 onwards	The majority of the Group's sales are for products made direct to customers either in-store or online. Estimates were previously made of anticipated returns and orders awaiting delivery to the customer. Certain income streams totalling £40.3m previously netted off costs have now been recognised as statutory revenue on transition to IFRS 15. The alternative performance measure "total sales" will not be adjusted for the impact of IFRS 15.	Page 128
2. IFRS 9 "Financial instruments"	2018/19 onwards	The main impact relates to the impairment assessment methodology used to value our Online customer receivables. The impact of the application of IFRS 9 was not material to the net assets or profit for 2018/19 or 2017/18. The prior year balances have therefore not been restated. See further details in the Group Accounting Policies section of the financial statements.	Page 129
3. IFRS 16 "Leases"	2019/20 onwards	On the adoption of IFRS 16, lease agreements give rise to both a right of use asset and a lease liability for future lease payables. The Group will adopt the fully retrospective approach on transition and will restate prior year comparatives. See further details in the Group Accounting Policies section of the financial statements.	Page 131

Viability statement and going concern

The Committee performed a detailed review of the Group's projected cash flows, borrowing capacity and the covenants within its borrowing facilities over a three year period (our viability assessment period). The approach was discussed and agreed by the Committee in November 2018 and followed up in March 2019 by reviewing the Group's financial position and performance, budgets for 2019/20 and three year cash projections which were stress tested under different scenarios having regard to the principal risks faced by the business. Further details of this review are on page 59. In addition, the Committee reported to the Board that, in its view, the going concern assumption remains appropriate.

Risk management and internal control

The Committee regularly reviews the effectiveness of risk management, and during the year has reviewed the key risks together with the associated controls and mitigating factors. Further details regarding the risk framework and approach, together with details of NEXT's principal risks and risk assessment are on page 54.

Internal audit

During the year the Committee:

- Reviewed the level of internal audit resource, experience and expertise. It is satisfied that it is adequate for the size, structure and business risks of the Group and is supplemented with appropriate external resources where needed.
- Reviewed and approved the scope of the internal audit work plan. It is satisfied that it is aligned to the key risks of the business.
- Received an update at each Committee meeting from the Head of Internal Audit of internal audit work performed and the results.
- Met the Head of Internal Audit without management present to discuss the internal audit charter, resources, audit plans and effectiveness.

During the year the Head of Internal Audit:

- Attended all Audit Committee meetings and provided reports and verbal updates to the Committee.
- Had direct access to all Committee members and met the Committee Chairman and Committee members separately.
- Met with the Audit Committee Chairman twice to carry out formal reviews of the internal audit department's resources, approach, work performed and results.

The Committee is satisfied that the internal audit function has continued to perform effectively during the year.

IT systems and cyber security

The operations of the Group are highly reliant on its IT systems. The Committee asked for updates from the IT and operations teams covering various aspects of IT and cyber security at each meeting during the year. Significant resources continue to be devoted to the development and security of the Group's IT systems. Ernst & Young LLP again performed an independent cyber security maturity assessment which was discussed at Audit Committee meetings during the year, reporting that good progress had continued to be made in the year. Please refer to page 54 of the principal risks section of the Strategic Report.

Warehousing and Logistics

The operations of the Group are also reliant on an effective and efficient warehousing and logistics function. The shift in customer spending from Retail stores to Online requires our warehouses to be set up and organised to respond to the increasing Online customer demand. Nearly half of Online

customer orders (by number) are collected in our stores and over 75% of returns (by number) are made through our stores. Speed and efficiency in delivering and returning goods, whilst seeking to grow Online sales, is therefore essential in order to maximise the customer experience.

During the year the Committee requested and received an update from our warehousing and logistics directors covering current and anticipated risks together with corresponding mitigating actions. In addition, the Board received two related presentations in the year from the Group Merchandise and Operations Director. A significant four year warehouse expansion and reorganisation project has been approved and commenced during the year to mitigate these key business risks. Please refer to page 54 of the principal risks section and page 42 of the Chief Executive's Review in the Strategic Report.

Other activities

During the year the Committee also received reports and presentations from relevant senior management on other significant activities and key control functions of the Group including:

- Anti Money Laundering
- Business continuity
- Code of Practice supplier audits (including ethical compliance)
- Corporate governance (including review of the 2018 Corporate Governance Code, applicable to NEXT for the first time from February 2019)
- Consumer credit business (including customer debt and provisioning)
- GDPR
- Health and safety
- Human rights and modern slavery
- IT systems - key projects, activities and resourcing
- Regulatory compliance and developments in relation to our consumer credit business, an FCA regulated activity
- Risk management
- Taxation

Whistleblowing

The Company's whistleblowing procedures ensure that arrangements are in place to enable employees, suppliers and other third parties to raise concerns about possible improprieties on a confidential basis. During the year, the Committee received updates of reported issues, investigation details and follow up actions. The Committee also received updates in relation to anti-bribery and modern slavery training and awareness programmes.

External auditor

Appointment

The Audit Committee is responsible for recommending to the Board the appointment, re-appointment and removal of the external auditor. A resolution to propose the re-appointment of PwC was approved by shareholders at the 2018 AGM.

Effectiveness

The Committee had discussions with the external auditor on audit planning, audit quality, fees, accounting policies, audit findings and internal control. The external auditor attended all of this year's Committee meetings. The Committee assessed the effectiveness of the external audit through the review of audit plans, reports and conclusions and through discussions with management (both with and without the external auditor present) and with the external auditor (both with and without management present). In addition, the Chairman of the Audit Committee regularly engages with the Audit Partner, Andrew Lyon, outside formal meetings.

As required by the regulatory guidance, we formally reviewed the 2018/19 audit and found it to be satisfactory. Separately, the Financial Reporting Council's Audit Quality Review team also completed a review of the 2017/18 audit as part of their routine sampling activity and concluded that "limited improvements" were required in only four specific areas. A summary of their recommendations and the actions that PwC has agreed to take as a result were discussed by the Committee in March 2019, and the Committee agreed that none of the findings were significant.

The Committee is satisfied that PwC possesses the skills and experience required to fulfil its duties effectively and efficiently and that the audit was effective.

Independence and objectivity

PwC has reported to the Committee that, in its professional judgement, it is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired. The Audit Committee has assessed the independence of the auditor, and concurs with this statement.

Non-audit work carried out by the external auditor

In order to ensure the continued independence and objectivity of the Group's external auditor, the Board has strict policies regarding the provision of non-audit services by the external auditor. The Committee reviews audit and non-audit fees twice a year.

The Committee's approval is required in advance for the provision of any non-audit services if the fee exceeds £100,000 for an individual assignment, or if the aggregate non-audit fees for the year exceed the lower of £150,000 or 20% of the audit fee. In line with EU audit reform regulations, the Audit Committee has set in place procedures to ensure only permitted non-audit services are provided by the auditor and these are in line with the above policy. These procedures will also ensure that the new cap on permitted non-audit services of 70% of the average Group audit fee paid on a rolling three year basis is not exceeded, even though this will not apply to NEXT until the financial year 2020/21.

Proposed assignments of non-audit services with anticipated fees in excess of £50,000 are generally subject to competitive tender and decisions on the award of work are made on the basis of competence, cost effectiveness and legislation. A tender process may not be undertaken where existing knowledge of the Group enables the auditor to provide the relevant services more cost effectively than other parties. The Group's external auditor is

prohibited from providing any services that would conflict with their statutory responsibilities or which would otherwise compromise their objectivity or independence.

During the year, PwC's audit fee amounted to £0.7m and its non-audit fees were £0.1m in total. In line with the above policy, appropriate advance approval was obtained from the Committee. Further details are provided in Note 3 of the financial statements.

CMA Order 2014 Statement of Compliance

NEXT confirms that it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year ended 26 January 2019.

REMUNERATION REPORT

Contents

Part 1: Annual Statement from the Remuneration Committee Chairman	page 85
Part 2: Annual Remuneration Report	page 88
Part 3: Directors' Remuneration Policy Extract	page 101

Remuneration compliance

This report is compiled in accordance with Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013. The Remuneration Committee believes that the Company has complied with the provisions regarding remuneration matters contained within the UK Corporate Governance Code.

Part 1: Annual Statement

As Chairman of the Remuneration Committee and on behalf of the Board, I am pleased to present our report on directors' remuneration for 2018/19.

Pay and performance outcome for 2018/19

Total remuneration

The Company remains focused on building shareholder value through delivery of long term sustainable growth in EPS and payment of dividends. Against an exceptionally challenging retail sector backdrop, during 2018/19 the executive directors helped to deliver positive growth in EPS after a two year period of decline. This improved performance was reflected in the 2018/19 annual bonus awards and Long Term Incentive Plan vesting rates (detailed below), neither of which were paid to executive directors in 2017/18.

Annual bonus

As has been the case for many years at NEXT, annual bonus is calculated with reference to pre-tax EPS, including the impact of share buybacks. The Committee set realistic but stretching performance targets for the 2018/19 annual bonus, reflecting the prospects of the business in a UK retail market which was expected to remain volatile and subject to powerful structural and cyclical changes. Details of those targets are on page 89.

The growth in pre-tax EPS in the year was above the threshold level set. In accordance with the bonus formula, a bonus of 40% of maximum was earned (resulting in a bonus of 40% of salary for the other executive directors and 60% for Lord Wolfson). In light of the challenges being faced by our Retail staff and store managers, Lord Wolfson made a personal decision to waive his entitlement to part of his bonus and will therefore receive a bonus of 20% of salary only (13% of the maximum). No annual bonus was earned by the executive directors for either of the previous two financial years (i.e. since 2015/16).

The Committee considered the above payments to be appropriate and approved them without the exercise of any discretionary adjustment.

Long Term Incentive Plan (LTIP)

LTIP awards are granted twice a year (each at 100% of base salary for executive directors and so totalling 200% for the year) and during the year the Committee approved two grants.

Two LTIP awards reached the end of their three year performance period. Of these, the first vested at 20% as NEXT's Total Shareholder Return (TSR) ranked eleventh (i.e. the median and threshold level of vesting) out of 21 companies in the comparator group. The Committee concluded, after considering the economic underpin test, that the indicative formulaic level of vesting was appropriate and allowed such vesting without adjustment. Details of the economic underpin test are provided on page 91 and the comparator group is set out on page 96. The second LTIP award which reached the end of its performance period in the year did not pay out as NEXT's TSR ranked below median in the comparator group. The two LTIP awards which reached the end of their performance periods during the previous financial year also did not pay out.

Awards granted to executive directors which vest must be taken in shares and the net shares (after payment of tax and NIC) must be held for a minimum period of two further years.

Key remuneration decisions

The Committee has addressed the following matters this year:

Remuneration Policy and 2018 Corporate Governance Code

At the 2017 AGM, shareholders endorsed a revised Remuneration Policy for the period to the 2020 AGM with 98.6% of votes cast in favour. Key details of the Remuneration Policy can be found on pages 101 to 106 and full Policy details are in our January 2017 Annual Report and Accounts which is available on our website.

During the year the Committee reviewed latest best practice guidance and the impact of the new 2018 Corporate Governance Code. The Committee will give further consideration to these matters during the course of the year ahead, as part of the planned process for seeking shareholder approval of a renewal of the Directors' Remuneration Policy at the 2020 AGM.

Annual base salary review for 2019/20

In the last three years' Annual Statements from the NEXT Remuneration Committee Chair, we have detailed our long-standing plans and approach in relation to specific executive director salaries. In those Statements, we set out the Committee's typical approach to salary progression for those executive directors who are appointed to the Board from an internal senior managerial position. This approach is to award salary increases which are stepped and timed to reflect performance and contribution at Board level, rather than automatically awarding a salary increase immediately on promotion. Salary progression is therefore usually phased over a period of approximately one to four years after promotion to the Board, subject to proven performance and development during that period.

The Committee is very mindful that the NEXT approach to salary progression does mean that there are significant pay rises awarded to executives in the first few years following their promotion to an executive director. However, our policy is a prudent one and delaying increases in salary to those internally promoted executives is in the interests of shareholders as it saves money on salary as well as bonus and LTIP grants, which are correspondingly less for the executive directors in those first few years following promotion. Furthermore, if the transition to the executive director role proves to be unsuccessful, any exit terms would be based on a correspondingly lower salary.

As noted in the Remuneration Committee Chair's Annual Statement for the 2016/17 year, in light of the lower than expected 2016/17 profit and EPS outcome, the Committee decided to defer its planned significant increases in the base salaries of Michael Law (now retired from the Company) and Jane Shields. These increases would have represented the final stage in setting their pay levels at an appropriate level following their internal promotion to the Board in July 2013. The Committee also decided to moderate a further interim increase in the base salary of Amanda James who was promoted to the Board in April 2015. Therefore, the Committee decided to increase the base salaries of Jane Shields and Michael Law by 1% (taking their salaries to £416,200), in line with the wider Company pay award with effect from February 2017. In the case of Amanda James, the Committee agreed a base salary increase of 16% (also taking her base salary to £416,200).

With regard to the salary review for 2018/19, given the continuing challenges in the fashion retailing sector, the Committee also considered it appropriate to again defer the planned phased salary increases and the base salary of the executive directors was increased by 2% in February 2018, in line with the wider Company award. However, it was noted in the 2017/18 Remuneration Committee Chair's Statement that, as the salaries of Jane Shields, Amanda James and Richard Papp (promoted to the Board in May 2018) remained below the planned level for someone of their experience and the benchmark median, the Committee would further review their salaries during 2018/19 with a view to implementing the planned final instalments of their increases.

Accordingly, that review was undertaken by the Remuneration Committee during the year. While the Committee considered external market data for reference, it only formed one part of a broader review which also considered the performance of the individuals, internal relativities and pay and employment conditions throughout the Company. The matters considered by the Committee when reviewing the relevant executive's performance included:

- **the significant broadening of the roles of each of the directors and their performance in delivering the Company's strategy.** Amanda James has grown fully into her role of Group Finance Director. This has been demonstrated by, for example, establishing credibility and high regard amongst the investment community, successfully leading several debt financing projects and, with the support from the Board, continuing a strong focus on capital allocation and the creation of long term sustainable shareholder value. In respect of Jane Shields and Richard Papp, they have led many of the initiatives that have been implemented in response to the profound and rapid structural change in the retail sector, with ever increasing volumes of sales transferring online. These include the investment and innovation to accelerate the growth of the Online business through new digital marketing, website enhancements, delivery services, improvements to the integration of our Retail and Online businesses and development of the Platform for our customers and third-party brand partners. The success of these initiatives has helped NEXT to deliver resilient performance in a very challenging trading environment.
- **their contribution at Board level.** In all cases, the executive's in-depth knowledge of the business, positive demeanour, strong competence and constructive approach enable them to make a very good and strategic contribution to Board proceedings.

To support their assessment of performance, the Committee members drew upon the information they receive on a regular basis through a number of different channels, including verbatim feedback from investors provided by the Company's corporate sponsor, analysts' reports, attendance at the half year and full year results announcements, feedback from the external audit partner, and the output of the 2018/19 external Board evaluation. The non-executive directors also meet on a formal and informal basis with a broad range of NEXT management and have unrestricted access to the business and its employees.

During December 2018, the Committee consulted with NEXT's principal institutional shareholders and representative bodies concerning proposed changes to NEXT's executive director salary levels. This dialogue was positive and no concerns regarding the proposals were raised.

Taking account of the matters considered in their review, shareholder feedback, previous decisions to defer planned salary increases, and the improvement during 2018/19 in EPS after a two year period of decline, the Committee decided to implement the changes set out to shareholders during the consultation:

- **Lord Wolfson (Chief Executive Officer)** – base salary increased in February 2019 by 2%, in line with the wider Company award. Lord Wolfson's annual base salary increases have been in line with the wider Company awards since 2009.
- **Amanda James (Group Finance Director)** – base salary increase of circa 15% effective from February 2019, taking her salary to £490,000.
- **Richard Papp (Group Merchandise and Operations Director) and Jane Shields (Group Sales and Marketing Director)** – base salary increase for each of circa 12% effective from February 2019, taking their salaries to £475,000.

Even after the salary increases noted above, the executive directors will continue to be positioned below the median of comparable roles in other FTSE 100 companies in general and other FTSE 100 retailers more specifically. For Amanda James, Richard Papp and Jane Shields, their salaries are below those of predecessor executive directors in equivalent or broadly equivalent roles who left in 2014 and 2015.

The Committee is very mindful of its responsibilities in this area. After much consideration, it believes these pay increases, while material, are in line with its overall conservative approach to remuneration and it was appropriate to implement the planned final instalments of the increases for the three executives promoted to the Board (recognising that this is arguably a year earlier for Richard Papp than others because of his greater pre-Board experience, responsibilities and performance).

EPS and performance measurement

The Committee reviews each year the basis and performance measures used for the annual bonus and LTIP. The performance measure for the annual bonus continues to be based on pre-tax EPS.

The principal reasons for using EPS are:

- it is consistent and transparent to participants and shareholders;
- the primary financial objective of the Group is to deliver long term, sustainable returns to shareholders through a combination of growth in EPS and payment of cash dividends; and
- the use of EPS is complemented by the application of TSR and consideration of the general economic underpin condition for the LTIP.

As set out in previous years, we consider it right that the impact of share buybacks on EPS (or adjustments for special dividends) should be included in performance measurement as share buybacks, and more recently special dividends, have been one of NEXT's primary strategies in returning value to shareholders. Share buybacks or special dividends are regularly considered by the Board. Shares are only bought when the Board is satisfied that the ability to invest in the business and to grow the ordinary dividend will not be impaired.

Other activity during 2018/19

Further information about the work of the Committee can be found on page 99.

Shareholder engagement

As noted above, during the year the Committee consulted with our largest shareholders and their representative bodies on our proposed changes to executive director salaries. We were pleased by the level of engagement and the support we received for our proposals. The Committee genuinely values feedback from shareholders and this was an opportunity to maintain our dialogue with our principal shareholders. We will engage with those shareholders (and their representative bodies) again at appropriate stages of the policy renewal process.

For further details regarding the feedback to the Board on shareholder views, please see page 78.

Context to the Committee's decisions

The Remuneration Committee members are keenly aware of the importance and sensitivity of remuneration issues among investors, employees and the wider public and the responsibilities which that places on us. The Committee's objective is to ensure that the remuneration paid to senior executives is appropriate in both amount and structure, is directly linked to the Company's annual and long term performance and is aligned with the interests of shareholders. We believe that stable and transparent remuneration structures are key elements in a fair system for rewarding personal and collective contribution across the business.

We also focus on maintaining an appropriate balance between annual and long term incentive elements and also between cash and share-based elements, with the aim of ensuring that remuneration drives the right behaviours and rewards the right outcomes. We believe that weighting rewards towards the long term ensures proper shareholder alignment.

Remuneration Policy does not conflict with the Company's approach to environmental, social and corporate governance matters and we believe the current arrangements do not encourage directors to take undue business risks.

Wider employee considerations

The Remuneration Committee is mindful about remuneration arrangements across the Group, and pay and employment conditions elsewhere in the Group are considered to ensure that differences for executive directors are justified. This includes performance-related pay which is designed to ensure that all employees have the potential to benefit from the success of NEXT. The Committee is responsible for approving the remuneration of the Group's senior executives (consistent with the new 2018 Corporate Governance Code). It is also responsible for determining the targets for performance-related pay schemes, approves any award of the Company's shares under share option or incentive schemes to employees, and oversees any major changes in employee benefit structures.

There are bonus structures throughout the Company and employee share ownership is strongly encouraged. Market value options over NEXT shares are granted each year to 1,400 middle management in our Head Office, call centres and warehouses, as well as senior store staff. Participation in our Sharesave scheme is open to all of our UK and Eire employees. Around 9,500 employees (circa 25% of our total UK and Eire employees) held options or awards in respect of 6.6 million shares in NEXT at the financial year end.

2019 AGM

In line with UK reporting regulation, the Annual Report on Remuneration will be put to an advisory vote at our AGM on 16 May 2019. As noted above, the Remuneration Policy was last approved by shareholders at the 2017 AGM and will, therefore, not be submitted for approval this year.

The Committee considers that the simplicity and transparency of our remuneration arrangements and their consistent application have contributed positively to NEXT's strong management team continuing to deliver resilient performance in both benign and more challenging trading environments. We hope that this report provides clear insight into the Committee's decisions and look forward to receiving your support at the AGM.

Lastly, I would like to thank my predecessor as Remuneration Committee Chair, Caroline Goodall, for all her work in developing remuneration policies which are simple, aligned to business strategy and have been supported by our shareholders. I hope that my tenure on the Board and as a member of the Remuneration Committee will help ensure an appropriate element of continuity.



Francis Salway
Chairman of the Remuneration Committee

21 March 2019

Part 2: Annual Remuneration Report

This Annual Remuneration Report comprises a number of sections:

Implementation of Remuneration Policy	page 89	Payments to past directors	page 97
Single total figure of remuneration	page 90	Payments for loss of office	page 97
Total remuneration opportunity	page 92	Performance and CEO remuneration comparison	page 97
Executive directors' external appointments	page 93	Change in remuneration of Chief Executive	page 98
Pension entitlements	page 93	Relative importance of spend on pay	page 98
Directors' shareholding and share interests	page 94	Dilution of share capital by employee share plans	page 99
Scheme interests awarded during the financial year	page 96	Remuneration Committee	page 99
Deferred bonus	page 97	Voting outcomes at General Meetings	page 99
Performance targets for outstanding awards	page 97	Service contracts	page 100

Annual Remuneration Report

The Remuneration Committee presents the Annual Remuneration Report, which, together with the Chairman's introduction on pages 85 to 106, will be put to shareholders as an advisory (non-binding) vote at the Annual General Meeting to be held on 16 May 2019. Sections which have been subject to audit are noted accordingly.

Implementation of Remuneration Policy

The Committee has implemented the Remuneration Policy in accordance with the policy approved by shareholders at the AGM in May 2017. The table below sets out the way that the policy was implemented in 2018/19 and any significant changes in the way the policy will be implemented in 2019/20.

Element of remuneration	Policy implemented during 2018/19 and changes in 2019/20
Base salary	The base salary of Lord Wolfson was increased by 2% in February 2019, in line with the wider Company award. For details about the base salary increases for the other executive directors please refer to page 101. The base salaries for the executive directors from February 2019 are: <i>* Richard was appointed to the Board on 14 May 2018.</i>
Annual bonus	No changes to the bonus structure were made. The Committee ensures that a mechanism exists so that executive directors are not incentivised to recommend share buybacks to the Board in preference to special dividends, or vice versa. This is achieved by making a notional adjustment to EPS growth for special dividends, on the basis that the cash distributed had instead been used to purchase shares at the prevailing share price on the day of the special dividend payment.

Element of remuneration	Policy implemented during 2018/19 and changes in 2019/20
	For the year to January 2019, performance targets were set requiring pre-tax EPS growth of at least 1.4% on the prior year, adjusted for special dividends and excluding exceptional gains, before any bonus became payable (being pre-tax EPS of 518.5p). Maximum bonus of 100% and 150% of salary for the executive directors and Chief Executive respectively was payable if pre-tax EPS exceeded growth of 10.6% (being pre-tax EPS of 565.5p). Pre-tax EPS growth achieved in the year was 4.2% resulting in EPS of 532.9p. In accordance with the bonus formula, a bonus of 40% of the maximum was earned which the Committee considered to be appropriate and approved without adjustment. Lord Wolfson waived part of his entitlement to his annual bonus, see page 98 for details. Bonus performance targets for the year ahead have been set but are not disclosed in advance for reasons of commercial sensitivity. The targets and performance will be disclosed in next year's Remuneration Report.
LTIP	No change in 2018/19. See single total figure of remuneration table, Note 5 for details of LTIP vestings in the year. In accordance with the Remuneration Policy approved by shareholders at the May 2017 AGM, for any LTIP grants made after that date participants will be entitled to receive ordinary and special dividend accruals on any awards vesting under the LTIP in accordance with market practice more generally. Grants in 2019/20 will be otherwise made on the same basis to the 2018/19 grants (with any changes to the TSR comparator group considered immediately prior to each grant).
Recovery and withholding provisions	No change. The Committee previously introduced recovery and withholding provisions in the service contracts of all executive directors to cover the bonus and LTIP, and a 5 year from grant holding period (comprising a 3 year vesting period and a 2 year holding period) under the LTIP for executive directors.
Chairman and non-executive director fees	The fees of the Chairman and non-executive directors were increased by 2% in February 2019, in line with the wider Company award. The Chairman, Michael Roney, will be paid an annual fee of £338,130 (2018/19 annual fee as Chairman: £331,500). The basic non-executive director fee for 2019/20 is £57,971 (2018/19: £56,834), with a further £11,594 (2018/19: £11,367) paid to the Chairman of each of the Audit and Remuneration Committees respectively, and to the Senior Independent Director.
Pension	No change.
Other benefits	No change.
Save As You Earn scheme (Sharesave)	No change.

Single total figure of remuneration (audited information)

Directors' remuneration

£000	Fixed pay										Performance-related pay										Total remuneration	
	Salary/fees		Benefits ¹		Pension ²		Salary supplement ³		Subtotal		Annual bonus ⁴		LTIP ⁵		Sharesave		Subtotal					
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18		
Chairman																						
Michael Roney ^①	332	237	–	–	–	–	–	–	332	237	–	–	–	–	–	–	–	–	332	237		
Executive directors																						
Lord Wolfson	789	773	44	39	108	225	118	116	1,059	1,153	158	–	108	–	2	–	268	–	1,327	1,153		
Amanda James	425	416	38	38	5	7	16	14	484	475	170	–	43	–	1	–	214	–	698	475		
Michael Law ^{② ③}	127	416	7	23	–	–	19	62	153	501	84	–	55	–	–	–	139	–	292	501		
Richard Papp ^④	306	n/a	16	n/a	–	n/a	15	n/a	337	n/a	170	n/a	58	n/a	–	n/a	228	n/a	565	n/a		
Jane Shields ^⑤	425	416	39	37	–	–	64	62	528	515	170	–	58	–	1	–	229	–	757	515		
Non-executive directors																						
Jonathan Bewes ^⑥	68	64	–	–	–	–	–	–	68	64	–	–	–	–	–	–	–	–	68	64		
Tristia Harrison ^⑦	20	n/a	–	–	–	–	–	–	20	n/a	–	–	–	–	–	–	–	–	20	n/a		
Caroline Goodall ^⑧	63	67	–	–	–	–	–	–	63	67	–	–	–	–	–	–	–	–	63	67		
Francis Salway ^⑨	69	67	–	–	–	–	–	–	69	67	–	–	–	–	–	–	–	–	69	67		
Dame Dianne Thompson	57	56	–	–	–	–	–	–	57	56	–	–	–	–	–	–	–	–	57	56		
	2,681	2,512	144	137	113	232	232	254	3,170	3,135	752	–	322	–	4	–	1,078	–	4,248	3,135		

① Michael Roney was appointed as an independent non-executive director, Deputy Chairman and Chairman Designate with effect from 14 February 2017. Michael succeeded John Barton as Chairman when he retired on 1 August 2017. Michael was paid an annual fee of £162,500 up until 31 July 2017, thereafter he was paid an annual fee of £325,000.

② Michael Law stepped down from the Board on 17 May 2018 and retired from the business on 27 July 2018. The table shows his fixed remuneration only for the period he remained on the Board. The performance-related pay relates to the period up until he retired from the business. No compensation for loss of office was paid to him.

③ Richard Papp joined the Board on 14 May 2018. Values disclosed for 2018/19 salary, benefits and pension relate only to the period of his executive directorship during the year. Performance-related remuneration includes pay relating to the period before he became an executive director but paid after his appointment.

④ Jonathan Bewes joined the Board in October 2016 and became Chairman of the Audit Committee on 18 May 2017, following the retirement from the Board of Steve Barber.

⑤ Tristia Harrison joined the Board on 25 September 2018.

⑥ Caroline Goodall stepped down from the Board on 1 January 2019. No compensation for loss of office was paid to her.

⑦ Francis Salway became Chairman of the Remuneration Committee in January 2019, following the retirement from the Board of Caroline Goodall.

⑧ During the year the Company appointed a new Actuary for the pension scheme. They highlighted that directors' disclosures regarding defined benefit pension schemes are not required if the director was a deferred member of a scheme for the whole of the year in question (or if they started off the year as a deferred pensioner and then took retirement during the year) and if revaluation on the deferred pension is at the statutory level. Michael Law and Jane Shields were deferred members of the 2013 NEXT Group Pension Plan during the 2018/19 year and also during 2017/18. The 2017/18 pension values for these two directors have been restated to zero.

Total emoluments paid to directors (salary/fees, benefits, salary supplements and annual bonus) for the year to January 2019 were £3,809,000 (2018: £3,059,000).

Note 1: Benefits

	Car/chauffeur charges/cash allowance		Fuel		Medical insurance & NEXT clothing allowance		Total	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Lord Wolfson	38	34	3	2	3	3	44	39
Amanda James	28	27	8	8	2	3	38	38
Michael Law	6	20	-	-	1	3	7	23
Richard Papp	14	n/a	-	n/a	2	n/a	16	n/a
Jane Shields	28	27	8	7	3	3	39	37

Note 2: Pension

Lord Wolfson is accruing pensionable service under the defined benefit section of the 2013 NEXT Group Pension Plan (see page 93 for further details). Defined benefit (DB) pension values above are calculated using the method required by remuneration regulations, i.e. the total pension accrued at January 2019 less the total pension accrued at the end of the previous year, adjusted for inflation and multiplied by a factor of 20, less the director's own contribution. It does not necessarily represent the economic value of the pension rights accrued and this benefit is not immediately available to the director. Consistent with other staff participating in the plans, Lord Wolfson's salary was frozen for DB pension purposes at October 2012 although he continues to accrue service.

In summary, the pension entitlement of Lord Wolfson as a member of the DB section of the 2013 NEXT Group Pension Plan during the year is as follows:

	Age at January 2019	Years of pensionable service	Accrued annual pension £000	Change in accrued annual pension £000	Change in accrued annual pension net of inflation £000
Lord Wolfson	51	24	404	17	7

Directors' pension arrangements are subject to the same actuarial reduction as other employees on termination or early retirement.

Amanda James is a member of the defined contribution section of the 2013 NEXT Group Pension Plan. For three months of the year Amanda made a contribution equal to 5% of her salary into her pension plan which was matched by the Company (2017/18: for four months of that year). For the remainder of the year, as Amanda had reached the annual pension allowance limit (i.e. the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that can build up in defined benefit pension schemes each year, for UK income tax relief purposes), she opted to receive an equivalent cash supplement in lieu of this Company contribution. This is consistent with the Remuneration Policy and with the pension provision and alternatives available to other members of the defined contribution section.

Note 3: Salary supplement in lieu of pension

Supplements of 15% of base salary are paid in lieu of pension provision after the directors became deferred members of the DB section of the 2013 NEXT Group Pension Plan. Jane Shields has received this supplement from 2011, and Michael Law and Lord Wolfson from 2012. Richard Papp is a deferred member of the defined benefit and contribution sections of the 2013 NEXT Group Pension Plan and receives a supplement of 5% of base salary. See Note 2 above for information regarding Amanda James.

Note 4: Annual bonus

Details of the performance targets for the annual bonus are set out on page 89. For the year to January 2019, in accordance with the bonus formula, a bonus of 40% of the maximum was earned. Lord Wolfson waived his entitlement to some of his annual bonus, see page 98 for details.

To provide a retention element in the case of the Chief Executive, any annual bonus in excess of 100% of base salary is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period.

Note 5: LTIP

Performance targets for the LTIP are set out on page 103.

For the three year period to July 2018, NEXT's TSR ranked number 11 in the comparator group of 21 resulting in 20% of the grant made in the second half of 2015 vesting. The Committee reviewed the Company's financial performance against underlying economic and other conditions (the 'economic underpin') and noted that, during this very challenging period for retailers, the Company's compound average annual basic underlying EPS had held up relatively well with a reduction over the 3 years of -0.6% and pre-tax underlying profit had reduced by -3.3%. Ordinary dividends had grown by 1.1% over the three year period and some £1.2bn was also returned to shareholders via buybacks and special dividends from surplus cash flow. The Company's performance also compared favourably against its principal retail competitors. The Committee concluded, after considering the economic underpin test, that the indicative formulaic level of vesting was appropriate and allowed such vesting without adjustment.

For the three year period to January 2019, NEXT's TSR ranked number 12 in the comparator group of 21 and therefore none of the award granted in January 2016 vested.

Total remuneration opportunity

The Committee's objective is to ensure that the remuneration paid to senior executives is appropriate in both amount and structure, is directly linked to the Company's annual and longer term performance and is aligned with the interests of shareholders. Careful consideration is given to ensuring there is an appropriate balance in the remuneration structure between annual and long term rewards, as well as between cash and share-based payments.

Variable pay is linked to measures which are aligned with the Company's long term strategy and objectives. The overall level of executive director pay remains modest compared with that available at other equivalently sized FTSE 100 companies and the maximum remuneration indicated in the charts below reflects the Committee's conservative approach to executive pay which it considers is appropriate.

The charts below indicate the level of remuneration that could be received by each director in accordance with the directors' Remuneration Policy at different levels of performance.

CHARTS x 4

In the above charts, the following assumptions have been made:

Fixed/minimum	Base salaries and salary supplement values as at 2019/20, pension and benefits values as shown in 2018/19 single figure of remuneration.
Mid-point/median	Includes the performance-related pay a director would receive in the scenario where: 50% of maximum annual bonus is earned (being the mid-point). LTIP performance results in a median TSR ranking and therefore 20% of the maximum award would vest.
Maximum	Includes the performance-related pay a director would receive in the scenario where performance equalled or exceeded maximum targets: 100% of the annual bonus. LTIP performance results in an upper quintile TSR ranking and therefore 100% of the maximum award would vest.
Maximum inc. 50% growth in share price across relevant performance period	As for the maximum scenario above, plus an increase in the value of the LTIP of 50% across the relevant performance period to reflect possible share price appreciation. Consistent with the new regulations, this does not separately include the impact of dividend accrual.

Executive directors' external appointments

No current executive director holds any non-executive directorships outside the Group.

Pension entitlements (audited information)

Executive directors are members of the 2013 Plan which has been approved by HMRC and consists of defined benefit and defined contribution sections. Lord Wolfson is an active member and Jane Shields, Michael Law and Richard Papp are deferred members of the defined benefit section. Amanda James is an active member and Richard Papp is a deferred member of the defined contribution section. Further information on the Group's pension arrangements is given in Note 19 of the financial statements.

Lord Wolfson and a small number of senior employees, on completion of at least 20 years' pensionable service at age 65, receive a retirement benefit of two thirds of pensionable earnings as at October 2012, which accrues uniformly throughout their pensionable service. The deferred defined benefit pensions for Jane Shields, Michael Law and Richard Papp are based on their pensionable earnings at the time they became deferred pensioners and accrued uniformly throughout their pensionable service.

The defined benefit section provides a lump sum death in service benefit and dependants' pensions on death in service or following retirement. In the case of ill-health retirement, only the accrued pension is payable. All benefits are subject to 2013 Plan limits. Increases to pensions in payment are at the discretion of the Trustee although pensionable service post 1997 is subject to limited price indexation. From 2006, sales and profit related bonuses were excluded from pensionable earnings and the normal retirement age under the Original Plan was increased from 60 to 65. There are no additional benefits payable to directors in the event of early retirement.

Members contribute 3% or 5% of pensionable earnings, while the Company makes contributions at the rate of 31.3%. Certain members (including Lord Wolfson) whose accrued or projected pension fund value exceeds their personal lifetime allowance are provided with benefits through an unfunded, unapproved supplementary pension arrangement. The relevant members contribute towards the additional cost of providing these benefits by a

payment of 5% on all pensionable earnings to the 2013 Plan. Since April 2011, where existing members have reached either the annual or lifetime pension contributions limits, the Company has offered those members the choice of leaving the defined benefit section and either joining the defined contribution section (with an enhanced Company contribution) or taking a salary supplement, in both cases equal to 10% or 15% of their salary (depending on their existing contributions and benefits).

Directors' shareholding and share interests (audited information)

Directors' interests

Directors' interests in shares (including those of their connected persons) at the beginning and end of the financial year were as follows:

	Ordinary shares		Deferred Bonus Shares ¹		LTIP ²		Sharesave ³	
	2019	2018	2019	2018	2019	2018	2019	2018
Lord Wolfson	1,528,639	1,527,204	–	–	91,316	81,968	344	364
Jonathan Bewes	1,750	1,750	–	–	–	–	–	–
Caroline Goodall ⁴	450	450	–	–	–	–	–	–
Tristia Harrison	nil	n/a	–	–	–	–	–	–
Amanda James	18,772	18,076	–	–	47,426	39,522	357	372
Michael Law ⁵	30,209	29,648	–	–	–	44,108	–	163
Richard Papp	28,627	n/a	–	–	49,137	n/a	392	n/a
Michael Ronev	38,275	24,079	–	–	–	–	–	–
Francis Salwav	9,040	9,040	–	–	–	–	–	–
Jane Shields	59,769	58,894	–	–	49,137	44,108	352	369
Dame Dianne Thompson	nil	nil	–	–	–	–	–	–

Full details of the basis of allocation and terms of the deferred bonus are set out on page 102.

The LTIP amounts above are the maximum potential awards that may vest subject to performance conditions described on page 103.

Executive directors can participate in the Company's Sharesave scheme (see details on page 104) and the amounts above are the options which will become exercisable at maturity.

Caroline Goodall stepped down from the Board in January 2019.

Michael Law stepped down from the Board in May 2018.

Amanda James purchased a further 1,013 shares on 8 February 2019. There have been no other changes to the directors' interests in the shares of the Company from the end of the financial year to 20 March 2019. Full details of directors' interests in the shares and share options of the Company are contained in the Register of Directors' Interests which is open to inspection at the Company's registered office.

Minimum shareholding

The minimum shareholding required of executive directors is 200% of base salary and each director has five years from the date of their appointment to the Board to acquire the minimum shareholding. As at the 2018/19 financial year end, the value of shareholdings of all of the executives were as follows:

	Date of appointment to Board	Shareholding % of base salary as at Feb 2019	Shareholding guidelines achieved
Lord Wolfson	February 1997	9.071%	100%
Amanda James	April 2015	183% ¹	92% ¹
Richard Papp	May 2018	262%	100%
Jane Shields	July 2013	445%	100%

¹ At January 2018 Amanda James had achieved the minimum shareholding, however based on her increased February 2019 salary, her shareholding had fallen to 92% of the shareholding guidelines. During February 2019, Amanda purchased a further 1,013 shares. When valued as at March 2019, her shareholding exceeds the shareholding guidelines.

The table below shows share awards held by directors and movements during the year:

	Date of award	Maximum receivable at start of financial year	Awarded during the year	Shares vested/ exercised in the year	Options lapsed	Maximum receivable at end of financial year	Market price at award date £	Option price £	Market price on date of vesting/ exercise £	Vesting date/ exercisable dates ¹
Lord Wolfson										
LTIP	Mar 2015	11,263	–	–	11,263	–	66.66	nil	–	Jan 2018

	Date of award	Maximum receivable at start of financial year	Awarded during the year	Shares vested/ exercised in the year	Options lapsed	Maximum receivable at end of financial year	Market price at award date £	Option price £	Market price on date of vesting/ exercise £	Vesting date/ exercisable dates ¹
	Sept 2015	10,106	–	2,021 ²	8,085 ²	–	74.29	nil	53.32	Jul 2018
	Mar 2016	10,360 ²	–	–	–	10,360	73.92	nil	–	Jan 2019
	Sept 2016	14,790	–	–	–	14,790	51.78	nil	–	Jul 2019
	Mar 2017	16,552	–	–	–	16,552	46.73	nil	–	Jan 2020
	Sept 2017	18,897	–	–	–	18,897	40.93	nil	–	Jul 2020
	Mar 2018	–	17,245	–	–	17,245	45.75 ³	nil	–	Jan 2021
	Sept 2018	–	13,472	–	–	13,472	58.56 ³	nil	–	Jul 2021
		81,968				91,316				
Sharesave	Oct 2013	364	–	364	–	–	–	41.12	45.75	Dec 2018 – Jun 2019
	Oct 2018	–	344	–	–	344	–	43.48	–	Dec 2023 – Jun 2024
		364				344				
Amanda James										
LTIP	Mar 2015	4,545	–	–	4,545	–	66.66	nil	–	Jan 2018
	Sept 2015	4,079	–	816 ²	3,263 ²	–	74.29	nil	53.32	Jul 2018
	Mar 2016	4,870 ²	–	–	–	4,870	73.92	nil	–	Jan 2019
	Sept 2016	6,952	–	–	–	6,952	51.78	nil	–	Jul 2019
	Mar 2017	8,907	–	–	–	8,907	46.73	nil	–	Jan 2020
	Sept 2017	10,169	–	–	–	10,169	40.93	nil	–	Jul 2020
	Mar 2018	–	9,279	–	–	9,279	45.75 ³	nil	–	Jan 2021
	Sept 2018	–	7,249	–	–	7,249	58.56 ³	nil	–	Jul 2021
		39,522				47,426				
Sharesave	Oct 2013	264	–	264	–	–	–	41.12	48.57	Dec 2018 – Jun 2019
	Oct 2016	108	–	–	–	108	–	38.25	–	Dec 2021 – Jun 2022
	Oct 2018	–	249	–	–	249	–	43.48	–	Dec 2023 – Jun 2024
		372				357				

Michael Law⁴										
LTIP	Mar 2015	6,061	-	-	6,061	-	66.66	nil	-	Jan 2018
	Sept 2015	5,438	-	1,027 ²	4,411 ²	-	74.29	nil	53.32	Jul 2018
	Mar 2016	5,575 ²	-	-	5,575	-	73.92	nil	-	Jan 2019
	Sept 2016	7,958	-	-	7,958	-	51.78	nil	-	Jul 2019
	Mar 2017	8,907	-	-	8,907	-	46.73	nil	-	Jan 2020
	Sept 2017	10,169	-	-	10,169	-	40.93	nil	-	Jul 2020
		44,108				-				
Sharesave	Oct 2014	163	-	-	163	-	-	54.92	-	Dec 2017 – Jun 2018
Richard Papp										
LTIP	Mar 2015	6,061	-	-	6,061	-	66.66	nil	-	Jan 2018
	Sept 2015	5,438	-	1,088 ²	4,350 ²	-	74.29	nil	53.32	Jul 2018
	Mar 2016	5,575 ²	-	-	-	5,575	73.92	nil	-	Jan 2019
	Sept 2016	7,958	-	-	-	7,958	51.78	nil	-	Jul 2019
	Mar 2017	8,907	-	-	-	8,907	46.73	nil	-	Jan 2020
	Sept 2017	10,169	-	-	-	10,169	40.93	nil	-	Jul 2020
	Mar 2018	-	9,279	-	-	9,279	45.75 ³	nil	-	Jan 2021
	Sept 2018	-	7,249	-	-	7,249	58.56 ³	nil	-	Jul 2021
		44,108				49,137				
Sharesave	Oct 2016	392	-	-	-	392	-	38.25	-	Dec 2021 – Jun 2022
Jane Shields										
LTIP	Mar 2015	6,061	-	-	6,061	-	66.66	nil	-	Jan 2018
	Sept 2015	5,438	-	1,088 ²	4,350 ²	-	74.29	nil	53.32	Jul 2018
	Mar 2016	5,575 ²	-	-	-	5,575	73.92	nil	-	Jan 2019
	Sept 2016	7,958	-	-	-	7,958	51.78	nil	-	Jul 2019
	Mar 2017	8,907	-	-	-	8,907	46.73	nil	-	Jan 2020
	Sept 2017	10,169	-	-	-	10,169	40.93	nil	-	Jul 2020
	Mar 2018	-	9,279	-	-	9,279	45.75 ³	nil	-	Jan 2021
	Sept 2018	-	7,249	-	-	7,249	58.56 ³	nil	-	Jul 2021
		44,108				49,137				
Sharesave	Oct 2013	299	-	299	-	-	-	41.12	48.57	Dec 2018 – Jun 2019

	Oct 2016	70	–	–	–	70	–	38.25	–	Dec 2021 – Jun 2022
	Oct 2018	–	282	–	–	282	–	43.48	–	Dec 2023 – Jun 2024
		369				352				

- For LTIP awards, the date in this column is the end of the three year performance period. Actual vesting will be the date on which the Committee determines whether any performance conditions have been satisfied, or shortly thereafter.
- See page 91 for details of the performance conditions and vesting levels applicable to the LTIP schemes with performance periods ending in the financial year 2018/19.
- The LTIP price at award date is NEXT's average share price over the three months prior to the start of the performance period.
- Michael Law stepped down as Group Operations Director with effect from 17 May 2018. He remained an employee of the Company until 27 July. Michael's outstanding awards under the LTIP were treated in accordance with the rules of the Plan and awards made in March and September 2016 and 2017 lapsed on the leaving date. Michael's other LTIP award (i.e. made in September 2015) vested on its original vesting date. As a 'good leaver', his entitlement was time pro-rated proportionately to his actual period of service. Michael did not receive any LTIP awards in 2018/19.
- Within the above table, all awards are subject to performance conditions except for Sharesave options. LTIP awards granted to executive directors which vest must be taken in shares and the net shares (after payment of tax and NIC) must be held for a minimum period of two further years.

The aggregate gains of directors arising from the exercise of options granted under the Sharesave scheme and the LTIP that vested in the 2018/19 year totalled £328,000 (2017/18: £874,000).

Scheme interests awarded during the financial year ended January 2019 (audited information)

LTIP				
Face value	In respect of the LTIP conditional share awards granted during the year 2018/19, the maximum "face value" of awards (i.e. the maximum number of shares that would vest if all performance measures are met multiplied by the average share price used to determine the award) is summarised below:			
		Mar 2018 £000	Sep 2018 £000	Total £000
	Lord Wolfson	789	789	1,578
	Amanda James	424	424	848
	Richard Papp	424	424	848
	Jane Shields	424	424	848
Vesting if minimum performance achieved	20% of the entitlement will be earned for relative TSR at median. Full vesting requires relative TSR in the upper quintile.			
Performance period	March 2018 grant: three years to January 2021. September 2018 grant: three years to July 2021.			
Performance measures	The LTIP performance measures are detailed on page 103. The companies in the TSR comparator group for awards granted during the financial year are:			
	ASOS B&M European Value Retail Burberry Carpentright Debenhams	Dixons Carphone Dunelm Halfords J Sainsbury JD Sports	Kingfisher Marks & Spencer Morrisons Mothercare N Brown	Pets at Home Superdry Ted Baker Tesco W H Smith
Dividend roll-up	For grants from September 2017, the award may be increased to reflect dividends paid over the period to vesting (assuming reinvestment at the prevailing share price).			

Deferred bonus

In addition to the scheme interests detailed above, any annual bonus in excess of 100% of base salary payable to the Chief Executive is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period. The 2018/19 annual bonus for Lord Wolfson was 20%, so none is payable in shares.

Performance targets for outstanding LTIP awards

The maximum potential of awards granted to executive directors for outstanding performance periods is 100% of base salary as at the date of the grant.

Details of the comparator group for the LTIP three year performance periods commencing February 2018 and August 2018 are shown above. The comparator group for the performance periods commencing in August 2016, February 2017 and August 2018 is the same. The comparator group for the performance periods commencing in August 2015 and February 2016 is the same as above with the exception of Home Retail Group and Poundland which were included, and Pets at Home and B&M European Value Retail which were not included.

Following the acquisition by J Sainsbury of Home Retail Group in September 2016, Home Retail Group was delisted from the London Stock Exchange. For the LTIP grants prior to that time, J Sainsbury and Home Retail Group continued as two separate entries with their relative TSRs being measured on pre (independent) and post (identical) takeover performance over each performance period. Poundland was also delisted following its acquisition in September 2016. For the LTIP grants prior to that time which included Poundland in the comparator group, from September 2016, the relative TSR of B&M European Value Retail replaced that of Poundland.

Payments to past directors (audited information)

Michael Law stepped down as Group Operations Director with effect from 17 May 2018. He remained an employee of the Company until 27 July 2018. Michael's outstanding awards under the LTIP were treated in accordance with the rules of the Plan and awards made in March and September 2016 and 2017 lapsed on the leaving date. Michael's other LTIP award (i.e. made in September 2015) vested on its original vesting date. As a 'good leaver', his entitlement was time pro-rated proportionately to his actual period of service. The value of this LTIP is provided in the single figure of remuneration on page 90, together with the annual bonus he earned for the period up until he retired from the business.

Payments for loss of office (audited information)

There were no payments made to any director in respect of loss of office during the 2018/19 financial year.

Performance and CEO remuneration comparison

Performance graph

The graph below illustrates the TSR performance of the Company when compared with the FTSE All Share and FTSE General Retailers indices. These have been selected to illustrate the Company's total shareholder return performance against a wide UK index and a sector specific index for the ten year period ended January 2019.

NEXT plc performance chart 2009-2019 Total Shareholder Return

TSR CHART

Analysis of Chief Executive's pay over 10 years

The table below sets out the remuneration for Lord Wolfson who has been the Chief Executive throughout this period.

Financial year to January	Single figure of total remuneration £000	Annual bonus pay-out against maximum opportunity ¹	LTIP pay-out against maximum opportunity ²	SMP pay-out against maximum opportunity
2010	2,833	100%	100%	n/a
2011	3,010	100%	65%	n/a
2012	4,106	72%	Two semi-annual awards vested at 100% and 83%, however total value capped at £2.5m	n/a
2013	4,630	99%	Two semi-annual awards vested at 96% and 98%, however total value capped at £2.5m	Entitlement waived ³
2014	4,646	100%	Two semi-annual awards vested at 100% each, however total value capped at £2.5m	Entitlement waived ³
2015	4,660	100%	Two semi-annual awards vested at 100% each, however total value capped at £2.5m	Did not participate in 2012-15 SMP
2016	4,295	45%	Two semi-annual awards vested at 76% and 77%	100%
2017	1,831	0%	Two semi-annual awards vested at 61% and 20%	n/a
2018	1,153	0%	Two semi-annual awards vested at nil	n/a
2019	1,327	13% ⁴	Two semi-annual awards vested at 20% and nil	n/a

1. The maximum bonus for the Chief Executive is 150% of salary.

2. The first of semi-annual, rather than annual, awards vested in July 2011.

3. Lord Wolfson waived his entitlement to SMP awards in these years. Had he not done so, his total remuneration would have been £8,947k for the financial year to January 2014 and £7,601k for the financial year to January 2013.

4. Lord Wolfson waived his entitlement to a portion of his annual bonus. Had he not done so, his bonus pay-out against maximum opportunity would have been 40% and his total remuneration would have been £1,642k for the financial year to January 2019.

Change in remuneration of Chief Executive

The table below shows the percentage changes in Lord Wolfson's remuneration (i.e. salary, taxable benefits and annual bonus) between 2017/18 and 2018/19 compared with the percentage changes in the average of each of those components of pay for Group employees in the UK and Eire. This group has been selected as the most appropriate comparator and represents over 85% of the Group's workforce.

	Salary % change	Annual bonus % change	Taxable benefits % change
Lord Wolfson	2.0%	*see below	11.3%
UK/Eire Employees (average per FTE)	3.7%	-3.0%	4.3%

* Lord Wolfson received no annual bonus during the year to January 2018 and 20% in the year to January 2019.

Relative importance of spend on pay

The graph below illustrates for the years 2017/18 and 2018/19 the relative and actual spend on total remuneration paid to all employees of the Group together with other significant distributions and payments (i.e. for share buybacks/special dividends and ordinary dividends).

All employee remuneration compared with other disbursements

CHART

Dilution of share capital by employee share plans

The Company monitors and complies with dilution limits in its various share scheme rules and has not issued new or treasury shares in satisfaction of share schemes in the last 10 years. Share-based incentives are in most cases satisfied from shares purchased and held by the ESOT (refer to Note 24 of the financial statements).

Consideration of matters relating to directors' remuneration

Remuneration Committee

During the year the Committee comprised the following independent non-executive directors:

Member
Caroline Goodall (Committee Chairman until January 2019)
Francis Salway (Committee member throughout the year and Committee Chairman from January 2019)
Jonathan Bewes
Tristia Harrison (from September 2018)
Michael Roney
Dame Dianne Thompson

Refer to the Committee member attendance table shown on page 75.

Role and work of Remuneration Committee

The Committee determines the remuneration of the Group's Chairman and executive directors, and approves that of senior executives (consistent with the new 2018 Corporate Governance Code). It is also responsible for determining the targets for performance-related pay schemes, approves any award of the Company's shares under share option or incentive schemes to employees, and oversees any major changes in employee benefit structures. The Committee members have no conflicts of interest arising from cross-directorships and no director is permitted to be involved in any decisions as to his or her own remuneration. The remuneration of non-executive directors is decided by the Chairman and executive directors of the Board. The Committee's Terms of Reference are available on our corporate website (nextplc.co.uk) or on request from the Company Secretary.

Assistance to the Committee

During the period the Committee received input from the Chief Executive and the Group Finance Director. The Committee engaged Aon Hewitt Ltd, FIT Remuneration Consultants LLP (FIT) and Deloitte LLP to provide independent external advice, including updates on legislative requirements, best practice, and other matters of a technical nature and related to share plans. Aon Hewitt and FIT have no other connection with the Company and were appointed by the Committee based on their expertise in the relevant areas of interest. Deloitte LLP provided independent verification services of total shareholder returns for NEXT and the comparator group of companies under the LTIP. Deloitte provide other consultancy services to the Group on an ad hoc basis.

During the year FIT was paid circa £20k, and Deloitte and Aon Hewitt were each paid less than £8k for the services described above, charged at their standard hourly rates. All three are members of the Remuneration Consultants Group, the body that oversees the Code of Conduct in relation to

executive remuneration consulting in the UK, and have confirmed to us that they adhere to its Code. Based on the nature of the advice, and the relatively small fees, the Committee was satisfied that the advice received was objective and independent.

Voting outcomes at General Meetings

	AGM	Votes for	% for	Votes against	% against	Total votes cast	% of shares on register	Votes withheld
To approve the Remuneration Policy	2017	107,107,291	98.6	1,471,317	1.4	108,578,608	73.8	900,892
To approve the 2017/18 Remuneration Report	2018	101,160,713	99.3	763,682	0.7	101,924,395	72.1	1,110,044
Authority for the directors to amend the rules of the NEXT LTIP (to permit new awards under this plan to receive the benefit of dividends paid in the period between grant and vesting)	2017	108,796,669	99.4	665,001	0.6	109,461,670	74.4	17,832

Service contracts

Executive directors

The Company's policy on notice periods and in relation to termination payments is set out in the policy table on page 105. Apart from their service contracts, no director has had any material interest in any contract with the Company or its subsidiaries.

Non-executive directors

Letters of appointment for the Chairman and non-executive directors do not contain fixed term periods; however, they are appointed in the expectation that they will serve for a minimum of six years, subject to satisfactory performance and re-election at Annual General Meetings.

Dates of appointment and notice periods for directors are set out below:

	Date of appointment to the Board	Notice period where given by the Company	Notice period where given by the employee
Chairman			
Michael Roney	14 February 2017*	12 months	6 months
Executive directors			
Lord Wolfson	3 February 1997	12 months	6 months
Amanda James	1 April 2015	12 months	6 months
Richard Papp	14 May 2018	12 months	6 months
Jane Shields	1 July 2013	12 months	6 months
Non-executive directors			
Jonathan Bewes	3 October 2016	1 month	1 month
Tristia Harrison	25 September 2018	1 month	1 month
Francis Salway	1 June 2010	1 month	1 month
Dame Dianne Thompson	1 January 2015	1 month	1 month

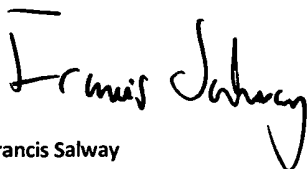
* Appointed Chairman 2 August 2017

Part 3: Remuneration Policy Table

The table following summarises the Company's policies with regard to each of the elements of remuneration for existing directors, as approved by shareholders in May 2017, and is provided for ease of reference only. This is an edited version of the policy report and has not been amended in any way. The full Remuneration Policy is set out in the January 2017 Annual Report, pages 63 to 72, and is available on our corporate website nextplc.co.uk.

A shareholder vote on Remuneration Policy is not required in 2019.

On behalf of the Board



Francis Salway
Chairman of the Remuneration Committee

21 March 2019

Remuneration Policy table, as approved in 2017. For clarity, where the policy table includes page cross references, these references have been updated to this year's Remuneration Report.

Base salary	
Purpose and link to strategy To attract, motivate and retain high calibre individuals, while not overpaying. To provide a satisfactory base salary within a total package comprising salary and performance-related pay. Performance-related components and certain benefits are calculated by reference to base salary. The level of salary broadly reflects the value of the individual, their role, skills and experience. Operation Normally reviewed annually, generally effective 1 February. The Committee focuses particularly on ensuring that an appropriate base salary is paid to directors and senior managers. The Committee considers salaries in the context of overall packages with reference to individual experience and performance, the level and structure of remuneration for other employees, the external environment and market data. External benchmarking analysis is only occasionally undertaken and the Committee has not adopted a prescribed objective of setting salaries by reference to a particular percentile or benchmark.	Maximum opportunity There is no guaranteed annual increase. The Committee considers it important that base salary increases are kept under tight control given the multiplier effect of such increases on future costs. In the normal course of events, increases in executive directors' salaries would be in line with the wider Company cost of living awards. The Committee reserves flexibility to grant larger increases where considered appropriate, such as where a new executive director, being an internal promotion, has been appointed to the Board with an initial salary which is considered below the normal market rate, then the Committee may make staged increases to bring the salary into line as the executive gains experience in the role. Also if there have been significant changes in the size and scope of the executive's role then the Committee would review salary levels accordingly. Under the reporting regulations the Company is required to specify a maximum potential value for each component of pay. Accordingly, for the period of this policy no base salary paid to an executive director in any year will exceed £850,000 (being the current median base salary of FTSE 100 Chief Executives). The amount of the maximum base salary which may be paid to an executive director in any year shall increase in line with the growth in RPI from the date of approval of this policy. Performance measures and targets Not applicable. Key changes to last approved policy No material changes. To comply with the latest regulatory guidance, the salary cap has been expressed as a fixed amount.
Annual bonus	
Purpose and link to strategy To incentivise delivery of stretching annual goals. To provide focus on the Company's key financial objectives.	Maximum opportunity At present Company policy is to provide a maximum bonus of 150% of salary for the Chief Executive and 100% of salary for other executive directors. Although the Committee has no current plan to make any changes, for the period of this policy the Committee reserves flexibility to:

To provide a retention element in the case of the Chief Executive as any annual bonus in excess of 100% of base salary is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period.	increase maximum bonus levels for executive directors in any financial year to 200% of salary. This flexibility would be used only in exceptional circumstances and where the Committee considered any such increase to be in the best interests of shareholders and after appropriate consultation with key shareholders;
Operation	lessen the current differentials in bonus maximums which exist between the Chief Executive and other executive directors; and
Performance measures and related performance targets are set at the commencement of each financial year by the Committee. Company policy is to set such measures by reference to financial measures (such as pre-tax EPS) but the Committee retains flexibility to use different performance measures during the period of this policy if it considers it appropriate to do so, although at least 75% of any bonus will continue to be subject to financial measures.	introduce or extend an element of compulsory deferral of bonus outcomes if considered appropriate by the Committee.
At the threshold level of performance, 20% of the maximum bonus may be earned. A straight sliding scale of payments operates for performance between the minimum and maximum levels. There is no in-line target level although, for the purposes of the scenario charts on page 92, 50% of maximum bonus has been assumed because it is the mid-point.	Performance measures and targets
Dividend accruals (both in respect of special and ordinary dividends) may be payable on any deferred bonus awards which vest.	Currently performance is assessed against pre-tax EPS targets set annually, which take account of factors including the Company's budgets and the wider background of the UK economy. Pre-tax EPS has been chosen as the basic metric to avoid executives benefitting from external factors such as reductions in the rate of corporation tax. Generally, the threshold for staff bonuses is set at a lower level than for directors. The Committee reserves flexibility to apply discretion in the interests of fairness to shareholders and executives by making adjustments it considers appropriate.
The Company has the flexibility within the rules of the Deferred Share Bonus Plan to grant nil cost options as an alternative to conditional share awards or exceptionally to settle in cash.	The Committee reserves flexibility to apply different performance measures and targets in respect of the annual bonus for the period of this policy but a financial measure will continue to be used for at least 75% of the award. The Committee will consult with major shareholders before any significant changes are made to the use of performance measures.
	The basis of performance measurement incorporates an appropriate adjustment to EPS growth to reflect the benefit to shareholders from special dividends paid in any period.
	Key changes to last approved policy
	Dividend accruals (both in respect of special and ordinary dividends) may be payable on vested deferred bonus awards.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy	Maximum opportunity
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 maximum possible aggregate value of awards granted to all executive directors will be 200% of annual salary (i.e. 100% every six months) and up to 300% in exceptional circumstances.
Retention of key, high calibre employees over three year performance periods and encouraging long term shareholding, through post vesting holding requirement, and commitment to the Company.	The Committee reserves the right to vary these levels within the overall annual limits described above. In addition, awards granted to executive directors which vest must be taken in shares and the net shares (after payment of tax and NIC) must be held for a minimum period of two further years. The Committee reserves the right to lengthen (but not reduce) the performance period and to further increase the holding period or to introduce a retention requirement.
Operation	Performance measures and targets
A variable percentage of a pre-determined maximum number of shares can vest, depending on the achievement of performance conditions.	Performance is measured over a period of three years. Currently performance is measured based on NEXT's TSR against a group (currently 20 other UK listed retail companies) which are, in the view of the Committee, most comparable with NEXT in size or nature of their business. Comparison against such a group is more likely to reflect the Company's relative performance against its peers, thereby resulting in awards vesting on an appropriate basis.
The maximum number of shares that may be awarded to each director is a percentage of each director's base salary at the date of each grant, divided by NEXT's average share price over the three months prior to the start of the performance period.	If no entitlement has been earned at the end of a three year performance period then that award will lapse; there is no retesting.
LTIP awards are made twice a year to reduce the volatility inherent in any TSR performance measure and to enhance the portfolio effect for participants of more frequent, but smaller, grants.	Key changes to last approved policy
The Company has the flexibility within the rules of the LTIP to grant nil cost options as an alternative to conditional share awards and to settle vested LTIP awards in cash.	
Dividend accruals (both in respect of special and ordinary dividends) may be payable on any vested LTIP awards.	

Dividend accruals (both in respect of special and ordinary dividends) may be payable on vested awards.

Pension

Purpose and link to strategy

To provide for retirement through Company sponsored schemes or a cash alternative for personal pension planning and therefore assist attraction and retention.

Operation

Lord Wolfson, Michael Law and Jane Shields are deferred members of the defined benefit (DB) section of the 2013 NEXT Group Pension Plan (the "Plan").

In addition to being a deferred member of the DB section of the Plan, Lord Wolfson is a member of the unfunded, unapproved supplementary pension arrangement (SPA), described on page 93. His future pension will be calculated by reference to his October 2012 salary, rather than his final earnings, and any future salary changes will have no effect.

Jane Shields and Michael Law ceased to contribute to the Plan in 2011 and in 2012 respectively. Their pensions are no longer linked to salary and will increase in line with statutory deferred revaluation only (i.e. in line with CPI).

Lord Wolfson, Michael Law and Jane Shields receive salary supplements of 15% in lieu of past changes to their pension arrangements, in line with other senior employee members of the DB section of the Plan.

Amanda James is a member of the defined contribution section of the Plan and the Company currently makes a contribution equal to 5% of her salary into her pension plan. Amanda can opt to receive an equivalent cash supplement in lieu of this Company contribution. This is consistent with the pension provision and alternatives available to employees generally.

New employees of the Group can join the defined contribution (DC) section of the NEXT Plan or the statutory auto enrolment plan or receive a cash supplement.

Bonuses are not taken into account in assessing pensionable earnings in the Plan.

Maximum opportunity

Under the DB section and the SPA, the maximum potential pension is only achieved on completion of at least 20 years of pensionable service at age 65, when two thirds of the executive director's annual pensionable salary at October 2012 could become payable. The lump sum payable on death in service is four times base salary.

No DC contributions, or equivalent cash supplement payments, will be made to an executive director in any year that will exceed 25% of base salary (being slightly below the median level of contributions or payments made to FTSE 100 Chief Executives).

Performance measures and targets

Not applicable.

Key changes to last approved policy

No material changes. To comply with the latest regulatory guidance, the pension cap has been expressed as a fixed percentage of salary.

Other benefits

Purpose and link to strategy

To provide market competitive non-cash benefits to attract and retain high calibre individuals.

Operation

Executive directors receive benefits which may include the provision of a company car or cash alternative, private medical insurance, subscriptions to professional bodies and staff discount on Group merchandise. A driver is also made available to the executive directors.

The Committee reserves discretion to introduce new benefits where it concludes that it is in the interests of NEXT to do so, having regard to the particular circumstances and to market practice and reserves flexibility to make relocation related payments.

Whilst not considered necessarily to be benefits, the Committee reserves the discretion to authorise attendance by directors and their family members (at the Company's cost if required) at corporate events and to receive reasonable levels of hospitality in accordance with Company policies.

Reasonable business related expenses will be reimbursed (including any tax thereon).

Maximum opportunity

During the policy period, the value of benefits (other than relocation costs) paid to an executive director in any year will not exceed £150,000. In addition, the Committee reserves the right to pay up to £250,000 relocation costs in any year to an executive director if considered appropriate to secure the better performance by an executive director of their duties.

During the policy period, the actual level of taxable benefits provided will be included in the single total figure of remuneration.

Performance measures and targets

Not applicable.

Key changes to last approved policy

Increased the benefits cap by £50,000 to £150,000 to provide suitable flexibility over the period of the Remuneration Policy.

Save As You Earn Scheme (Sharesave)

Purpose and link to strategy

To encourage all employees to make a long term investment in the Company's shares.

Operation

Executive directors can participate in the Company's Sharesave scheme which is HMRC approved and open to all employees in the UK. A similar scheme is available to employees in Eire. Option grants are generally made annually, with the exercise price discounted by

Maximum opportunity

Investment currently limited to a maximum amount of £250 per month. The Committee reserves the right to increase the maximum amount in line with limits set by HMRC (currently £500 per month).

Performance measures and targets

Not applicable.

a maximum of 20% of the share price at the date an invitation is issued. Options are exercisable three or five years from the date of grant. Alternatively, participants may ask for their contributions to be returned.	Key changes to last approved policy Updated to permit the maximum amount to reflect the latest HMRC limits.
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Termination payments

Purpose and link to strategy

Consistent with market practice, to ensure NEXT can recruit and retain key executives, whilst protecting the Company from making payments for failure.

Operation

The Committee will consider the need for and quantum of any termination payments having regard to all the relevant facts and circumstances at that time.

Future service contracts will take into account relevant published guidance.

Maximum opportunity

Each of the executive directors has a rolling service contract. Dates of appointment and notice periods are disclosed on page 100. The contract is terminable by the Company on giving one year's notice and by the individual on giving six months' notice. For current directors, the Company has reserved the right to make a payment in lieu of notice on termination of an executive director's contract equal to their base salary and contractual benefits (excluding performance-related pay). For future directors, any payment in lieu of notice would be limited to their base salary only.

For current directors, if notice of termination is given immediately following a change of control of the Company, the executive director may request immediate termination of his/her contract and payment of liquidated damages equal to the value of his/her base salary and contractual benefits. Liquidated damages provisions will not be present in any service contract for a new executive director. Any new service contract will include provision for any termination payments to be made on a phased basis.

In normal circumstances executive directors have no entitlement to compensation in respect of loss of performance bonuses and all share awards would lapse following resignation. However, under certain circumstances (e.g. "good leaver" or change in control), and solely at the Committee's discretion, annual bonus payments may be made and would ordinarily be calculated up to the date of termination only, based on performance. In addition, awards made under the LTIP would in those circumstances generally be time pro-rated and remain subject to the application of the performance conditions at the normal measurement date. The Committee also has a standard discretion to vary the application of time pro-rating in such cases. "Good leaver" treatments are applied in exceptional cases only.

In the event of any termination payment being made to a director (including any performance-related pay elements), the Committee will take full account of that director's duty to mitigate any loss and, where appropriate, may seek independent professional advice and consider the views of shareholders as expressed in published guidance prior to authorising such payment.

Consistent with market practice, in the event of removal from office of an executive director, the Company may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement and such other amounts as the Committee considers to be necessary, having taken legal advice, in settlement of potential claims. Any such fees would be disclosed with all other termination arrangements. The Committee reserves the right, if necessary, to authorise additional payments in respect of such professional fees if not ascertained at the time of reporting such termination arrangements up to a maximum of £10,000.

A departing gift may be provided up to a value of £10,000 (plus related taxes) per director.

Performance measures and targets

Not applicable.

Key changes to last approved policy

Payment in lieu of notice will be limited to base salary for any new executive directors. Liquidated damages will not be used for any new executive director appointment. Any new service contracts will include provision for phased payments.

Recovery and withholding provisions

Purpose and link to strategy

To ensure the Company can recover any payments made or potentially due to executive directors under performance-related remuneration structures.

Operation

Recovery and withholding provisions are in the service contracts of all executive directors and will be enforced where appropriate to recover or withhold performance-related remuneration which has been overpaid due to: a material misstatement of the Company's accounts; errors made in the calculation of an award; or a director's

Maximum opportunity

Not applicable.

Performance measures and targets

Not applicable.

Key changes to last approved policy

No material changes.

misconduct. These provisions allow for the recovery of sums paid and/or withholding of sums to be paid.

Chairman and non-executive director fees

Purpose and link to strategy

To ensure fees paid to the Chairman and non-executive directors are competitive and comparable with other companies of equivalent size and complexity so that the Company attracts non-executive directors who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation

Remuneration of the non-executive directors is normally reviewed annually and determined by the Chairman and the executive directors. The Chairman's fee is determined by the Committee (excluding the Chairman).

Additional fees are paid to non-executive directors who chair the Remuneration and Audit Committees, and act as the Senior Independent Director. The structure of fees may be amended within the overall limits.

External benchmarking is undertaken only occasionally and there is no prescribed policy regarding the benchmarks used or any objective of achieving a prescribed percentile level.

Currently, for each day spent on Company business in excess of the normal time commitment, the Chairman will be paid £1,500 and the non-executive directors £1,000. These are subject to an annual review by the Board. Reasonable business related expenses will be reimbursed (including any tax thereon).

Maximum opportunity

The total of fees paid to the Chairman and the non-executive directors in any year will not exceed the maximum level for such fees from time to time prescribed by the Company's Articles of Association (currently £750,000 per annum).

Performance measures and targets

Non-executive directors receive the normal staff discount on Group merchandise but do not participate in any of the Group's bonus, pension, share option or other incentive schemes.

Key changes to last approved policy

No material changes.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEXT PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- NEXT plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 January 2019 and of the Group's profit and cash flows for the 52 week period (the "period") then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Parent Company Balance Sheets as at 26 January 2019; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement and the Consolidated and Parent Company Statements of Changes in Equity for the 52 week period then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

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 Auditor's 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 Group 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed in the Audit Committee Report, we have provided no non-audit services to the Group or the Parent Company in the period from 28 January 2018 to 26 January 2019.

Our audit approach

Overview

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental regulations and unethical and prohibited business practices (see page 63 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Listing Rules, Pension Legislation, UK tax legislation and the Financial Conduct Authority's hand book with respect to credit related regulated activity. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent transactions to increase the share price that would result in overstating profits, therefore raising shareholder expectations and director incentives payments. The Group engagement team shared this risk assessment with the component auditor so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditor included:

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to recoverability of customer receivables (see related key audit matter below)

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material

misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Recoverability of customer receivables Group Refer to the Audit Committee Report on page 81, the Major Sources of Estimation Uncertainty within the Group Accounting Policies and Note 12 for Customer and Other Receivables. An allowance of £165.5m is recognised against customer receivables of £1,372.7m. NEXT has adopted IFRS 9 in the year and has revised its approach to provisioning accordingly. No prior year restatement of brought forward reserves has been required as the impact of adoption has not been material. NEXT's provisioning methodology uses historical loss experience to quantify, on a discounted and probability weighted basis, the cash shortfalls expected to be incurred in various default scenarios for prescribed future periods. A number of manual overlays are then applied to address areas of identified risk which are not fully captured by the historical information. In arriving at these overlays management has considered both the current macro-economic environment and the Bank of England's ongoing concern – both as Central Bank and as Regulator – regarding increasing consumer debt levels and affordability.	We performed controls testing on the origination and servicing of the underlying customer receivables and related IT systems and have substantively tested the year end receivables balance to which management have applied their provision methodology, as well as testing the integrity of the provisioning model. We used financial services specialists and actuarial experts to critically assess management's approach against the requirements of IFRS 9. We tested historical default experience, payment history, recoveries and the stratification of the year end book by arrears position, customer credit ratings and expected month of default on a sample basis - being the key drivers to the provision calculated by management. We tested, on a sample basis, the appropriateness of management's assumptions, based on NEXT's historical book experience and expected levels of future default. This included critically assessing NEXT's manual overlays based on our knowledge of the underlying book (and other books of a similar kind), expected future customer payment assumptions and wider macro-economic factors. We tested, on a sample basis, whether the performing customer receivables were genuinely performing, in order to obtain evidence that receivables are appropriately recorded. We developed our own independent expectation of the allowance amount and concluded that the position taken by management was reasonable.
Inventory being in excess of net realisable value Group Refer to the Audit Committee Report on page 81 and the Major Sources of Estimation Uncertainty within the Group Accounting Policies. The valuation of inventory involves judgement in recording provisions for slow moving or obsolete inventory. The significant judgements and assumptions as applied when calculating the provisions are: the forecasted sell through rates of current and prior season inventory to determine inventory expected to be sold via clearance channels; and the forecasted cash recovery rates on inventory sold via clearance channels. In addition, provisions are recognised for shrinkage and faulty inventory which require an estimate of expected inventory losses and realisable amounts.	We evaluated the forecasted sell through and cash recovery rates by corroborating historical rates and assessing management's judgement regarding changes in customer behaviour / macro-economic conditions and the impact of this on forecasted rates. We have performed sensitivity analysis over key judgements taken by management and assessed the impact of this sensitivity analysis on the provision value. We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately. We reviewed inventory write-offs in the financial period to ensure they are not inconsistent with the key assumptions used in the inventory provision model at the year end. We found that the provisions recorded were consistent with the evidence obtained.
Valuation of financial instruments Group and parent Refer to the Audit Committee Report on page 81 and Notes 26 and 27 for financial instruments. The Group is exposed to fair value and interest rate movements on debt instruments that it holds. Additionally, the nature of the Group's operations means that it is exposed to fluctuations in foreign exchange rates on purchases and sales. As such, the Group holds a number of interest rate and foreign exchange derivatives which are held at fair value within the financial statements. These are	We have obtained third party confirmations for all foreign exchange and interest rate derivatives and ensured these are consistent with the amounts recognised by NEXT. We used valuation specialists to form an independent expectation of the risk free valuation recognised by NEXT for a sample of foreign exchange and interest rate derivatives.

Key audit matter	How our audit addressed the key audit matter
valued on a discounted cash flow basis with reference to market inputs, rather than the valuation being taken directly from an observable market value.	Our valuation specialists also estimated the impact of a credit risk adjustment arising from the counterparty's credit risk when NEXT holds an asset and arising from NEXT's credit risk when holding a liability. We found the valuation of foreign exchange and interest rate derivatives to be consistent with the evidence obtained.
Accounting for defined benefit pension arrangements Group Refer to the Audit Committee Report on page 81, the Major Sources of Estimation Uncertainty within the Group Accounting Policies and Note 19 for pension benefits. The defined benefit pension schemes obligation of £768.7 million is calculated based on actuarial assumptions which are subject to significant management judgement and are also sensitive to small changes. In addition, there are restrictions under IAS 19 and IFRIC 14 as to when a net pension surplus should be recognised.	We used actuarial specialists to review the key actuarial assumptions across the Original Plan, the 2013 Plan and the SPA. We found that the assumptions utilised by NEXT in the pension obligation valuation were reasonable and within our expected range. We reviewed the trust deeds for the 2013 Plan where a material net surplus is recognised by NEXT. From this review, we concur with management's assessment that under the requirements of IFRIC 14, NEXT should recognise the net surplus on the pension scheme. We are satisfied that the valuation of the defined benefit pension scheme obligations and the recognition of the net surplus is consistent with the evidence obtained.
Presentation and disclosure of the expected impact of IFRS 16 Group Refer to the Audit Committee Report on pages 81 and 82 and the Adoption of new accounting standards, interpretations and amendments in the Group Accounting Policies. The Group is retrospectively applying IFRS 16 from 27 January 2019 so the expected impact on the financial statements has to be disclosed this year in line with IAS 8. The Group has implemented a new IT system to calculate these numbers. In addition judgements have been taken by the Group, including the discount rate to be applied.	We have tested a sample of inputs into the IT system and agreed them back to the underlying lease agreements. We have recalculated the accounting entries for a sample of leases and confirmed the IT system is performing this calculation accurately. We are comfortable with the methodology applied to calculate the discount rate using an incremental borrowing rate specific to the Group. We have considered the other assumptions to be appropriate including ensuring all the leases meet the definition of a lease under IFRS 16 and that the lease term is accurate. We have reviewed the workings for calculating the dilapidations provision and agree with the methodology applied. Having reviewed the disclosures in the financial statements, we are satisfied that they are compliant with IAS 8.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of a number of reporting units, comprising the Group's operating businesses within its seven segments with our audit work focussed on the NEXT Retail, NEXT Online, NEXT Finance, NEXT Sourcing and Property Management segments.

In establishing the overall approach to the Group audit, we identified one reporting unit (Retail) which, in our view, required an audit of its complete financial information both due to its size and risk characteristics (forms the majority of the NEXT Retail, NEXT Online and NEXT Finance segments).

In addition, full scope audits were performed over five other reporting units which contribute to the highlighted segments, though these are not considered to be individually significant either financially or due to risk characteristics.

The audit work performed at these six reporting units, together with additional procedures performed on centralised functions at the Group level, including audit procedures over the consolidation and intangible asset impairment testing, gave us the evidence we needed for our opinion on the Group financial statements as a whole. This scoping as described above results in the following coverage at the key metrics:

- 94% of revenue;
- 99% of profit before tax; and
- 98% of total assets.

Five of the six in-scope components were audited by the UK Group Engagement Team with the remaining component audited by a team in Hong Kong. Throughout the audit cycle, senior members of the Group Engagement Team worked closely with the local component team including review of risk assessment and attendance at the local closing meeting with management. Their workpapers were also subject to review by the Group Engagement Team including the Group Engagement Leader.

The Parent Company is comprised of one reporting unit which was subject to a full scope audit for the purposes of the Group and Parent Company financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	£36.0m (2018: £36.0m).	£30.0m (2018: £25.0m).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	The Parent Company does not trade with its main operations being the holding and servicing of the Group's corporate bonds and payment of dividends to external equity shareholders. It does not trade and therefore total assets is considered to be the most appropriate benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £7.0 million to £33.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.8m (Group audit) (2018: £1.8m) and £1.5m (Parent Company audit) (2018: £1.3m) as well as misstatements below those amounts, that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	Outcome We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, 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.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's 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, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (Corporate Governance) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (Corporate Governance) with respect to the Parent Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Parent Company. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 54 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 59 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 72, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and

performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit.

- The section of the Annual Report on page 81 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
 - The directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.
-

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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 72, 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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 auditor's report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent 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

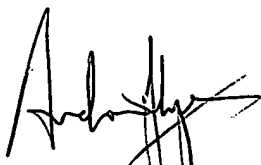
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent 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 Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 18 May 2017 to audit the financial statements for the year ended 27 January 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 27 January 2018 to 26 January 2019.

A handwritten signature in black ink, appearing to read 'Andrew Lyon', with a stylized flourish at the end.

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

21 March 2019

Group Financial Statements

115	Consolidated Income Statement
116	Consolidated Statement of Comprehensive Income
117	Consolidated Balance Sheet
118	Consolidated Statement of Changes in Equity
119	Consolidated Cash Flow Statement
120	Group Accounting Policies
132	Notes to the Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 Restated £m
<i>Continuing operations</i>			
Revenue		3,917.1	3,867.5
Credit account interest		250.3	223.2
Total revenue (including credit account interest)	1, 2	4,167.4	4,090.7
<i>Cost of sales</i>		(2,640.5)	(2,668.6)
Impairment losses on customer and other receivables	12	(52.7)	(24.3)
Gross profit		1,474.2	1,397.8
Distribution costs		(458.3)	(399.7)
Administrative expenses		(255.4)	(238.1)
Other gains/(losses)	3	1.4	(1.1)
Trading profit		761.9	758.9
Share of results of associates and joint venture		0.1	1.0
Operating profit	3	762.0	759.9
Finance income	5	0.4	1.3
Finance costs	5	(39.5)	(35.1)
Profit before taxation		722.9	726.1
Taxation	6	(132.5)	(134.3)
Profit for the year attributable to equity holders of the Parent Company		590.4	591.8
Earnings Per Share			
Basic	8	435.3p	416.7p
Diluted	8	433.0p	415.7p

The Notes 1 to 31 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Profit for the year		590.4	591.8
<i>Other comprehensive income and expenses:</i>			
Items that will not be reclassified to profit or loss			
Actuarial gains on defined benefit pension scheme	19	18.6	43.4
Tax relating to items which will not be reclassified	6	(3.2)	(7.4)
<i>Subtotal items that will not be reclassified</i>		15.4	36.0
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(5.3)	7.8
Foreign currency cash flow hedges:			
– fair value movements		73.2	(79.8)
– reclassified to the Income Statement		(2.6)	(12.3)
– recognised in inventories		(18.4)	8.8
Cost of hedging			
– fair value movements		0.5	–
– reclassified to the Income Statement		–	–
– recognised in inventories		–	–
Tax relating to items which may be reclassified	6	(9.0)	14.2
<i>Subtotal items that may be reclassified</i>		38.4	(61.3)
Other comprehensive income/(expense) for the year		53.8	(25.3)
Total comprehensive income for the year		644.2	566.5

CONSOLIDATED BALANCE SHEET

	Notes	26 January 2019 £m	27 January 2018 Restated £m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	564.9	558.9
Intangible assets	10	42.6	42.9
Associates, joint venture and other investment	11	5.1	2.1
Defined benefit pension asset	19	125.0	106.2
Other financial assets	13	41.5	48.1
Deferred tax assets	6	–	5.8
		779.1	764.0
Current assets			
Inventories		502.8	466.7
Customer and other receivables	12	1,339.8	1,248.2
Right of return asset		23.4	23.4
Other financial assets	13	9.9	5.7
Cash and short term deposits	14	156.3	53.5
		2,032.2	1,797.5
Total assets		2,811.3	2,561.5
Current liabilities			
Bank loans and overdrafts	15	(377.3)	(180.0)
Trade payables and other liabilities	16	(640.7)	(580.2)
Other financial liabilities	17	(9.4)	(59.3)
Current tax liabilities		(85.1)	(95.3)
		(1,112.5)	(914.8)
Non-current liabilities			
Corporate bonds	18	(905.2)	(908.5)
Provisions	20	(10.3)	(10.4)
Other financial liabilities	17	(9.2)	(12.4)
Other liabilities	16	(217.5)	(232.8)
Deferred tax liabilities	6	(2.8)	–
		(1,145.0)	(1,164.1)
Total liabilities		(2,257.5)	(2,078.9)
NET ASSETS		553.8	482.6
TOTAL EQUITY		553.8	482.6

The financial statements were approved by the Board of directors and authorised for issue on 21 March 2019. They were signed on its behalf by:



Lord Wolfson of Aspley Guise
Chief Executive



Amanda James
Group Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Foreign currency translation £m	Cost of hedging reserve £m	Other reserves (Note 22) £m	Retained earnings £m	Total equity £m
At 28 January 2017	14.7	0.9	15.2	(215.4)	26.2	(4.5)	–	(1,443.8)	2,117.2	510.5
Profit for the year	–	–	–	–	–	–	–	–	591.8	591.8
Other comprehensive (expense)/income for the year	–	–	–	–	(69.1)	7.8	–	–	36.0	(25.3)
Total comprehensive (expense)/income for the year	–	–	–	–	(69.1)	7.8	–	–	627.8	566.5
Share buybacks and commitments (Note 21)	(0.2)	–	0.2	–	–	–	–	–	(106.1)	(106.1)
ESOT share purchases and commitments (Note 24)	–	–	–	(37.0)	–	–	–	–	–	(37.0)
Shares issued by ESOT	–	–	–	20.8	–	–	–	–	(10.5)	10.3
Share option charge	–	–	–	–	–	–	–	–	14.1	14.1
Acquisition of minority interest in subsidiary	–	–	–	–	–	–	–	–	(0.4)	(0.4)
Tax recognised directly in equity (Note 6)	–	–	–	–	–	–	–	–	4.4	4.4
Equity dividends (Note 7)	–	–	–	–	–	–	–	–	(479.7)	(479.7)
At 27 January 2018	14.5	0.9	15.4	(231.6)	(42.9)	3.3	–	(1,443.8)	2,166.8	482.6
Profit for the year	–	–	–	–	–	–	–	–	590.4	590.4
Other comprehensive (expense)/income for the year	–	–	–	–	43.3	(5.3)	0.4	–	15.4	53.8
Total comprehensive (expense)/income for the year	–	–	–	–	43.3	(5.3)	0.4	–	605.8	644.2
Share buybacks and commitments (Note 21)	(0.6)	–	0.6	–	–	–	–	–	(324.2)	(324.2)
ESOT share purchases and commitments (Note 24)	–	–	–	(61.9)	–	–	–	–	–	(61.9)
Shares issued by ESOT	–	–	–	21.9	–	–	–	–	(6.6)	15.3
Share option charge	–	–	–	–	–	–	–	–	13.8	13.8
Tax recognised directly in equity (Note 6)	–	–	–	–	–	–	–	–	(0.3)	(0.3)
Equity dividends (Note 7)	–	–	–	–	–	–	–	–	(215.7)	(215.7)
At 26 January 2019	13.9	0.9	16.0	(271.6)	0.4	(2.0)	0.4	(1,443.8)	2,239.6	553.8

CONSOLIDATED CASH FLOW STATEMENT

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Cash flows from operating activities		
Operating profit	762.0	759.9
Depreciation, impairment and loss on disposal of property, plant and equipment	122.3	122.6
Amortisation of intangible assets	0.3	0.4
Share option charge	13.8	14.1
Exchange movement	(4.3)	6.1
Increase in inventories and right of return asset	(36.1)	(39.0)
Increase in customer and other receivables	(96.2)	(126.0)
Increase/(decrease) in trade and other payables	36.9	(16.9)
Net pension contributions less income statement charge	(0.2)	–
Cash generated from operations	798.5	721.2
Corporation taxes paid	(144.2)	(106.0)
Net cash from operating activities	654.3	615.2
Cash flows from investing activities		
Additions to property, plant and equipment	(128.6)	(104.2)
Movement in capital accruals	5.4	(8.6)
Payments to acquire property, plant and equipment	(123.2)	(112.8)
Proceeds from sale of property, plant and equipment	0.3	1.0
Purchase of shares in associate	(3.0)	–
Outflow on the acquisition of minority interest in a subsidiary	–	(0.4)
Net cash from investing activities	(125.9)	(112.2)
Cash flows from financing activities		
Repurchase of own shares	(325.0)	(105.1)
Purchase of shares by ESOT	(61.9)	(37.0)
Disposal of shares by ESOT	15.8	11.3
Proceeds from unsecured bank loans	120.0	135.0
Interest paid	(37.3)	(33.4)
Interest received	0.2	1.3
Dividends paid (Note 7)	(215.7)	(479.7)

Net cash from financing activities	(503.9)	(507.6)
Net increase/(decrease) in cash and cash equivalents	24.5	(4.6)
Opening cash and cash equivalents	8.5	14.4
Effect of exchange rate fluctuations on cash held	1.0	(1.3)
Closing cash and cash equivalents (Note 29)	34.0	8.5

GROUP ACCOUNTING POLICIES

General Information

NEXT plc and its subsidiaries (the "Group") is a UK based retailer which offers exciting, beautifully designed, excellent quality clothing and homeware. The Company is a public limited company, which is listed on the London Stock Exchange and incorporated in England and Wales and domiciled in the UK. The address of the registered office is Desford Road, Enderby, Leicester, LE19 4AT.

Basis of Preparation

The financial statements of NEXT plc and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and in accordance with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for certain financial instruments, pension assets and liabilities and share-based payment liabilities which are measured at fair value. As is common in the retail sector, the Group operates a weekly accounting calendar and this year the financial statements are for the 52 weeks to 26 January 2019 (last year 52 weeks to 27 January 2018).

The Group applies for the first time IFRS 15 "*Revenue from contracts with customers*" and IFRS 9 "*Financial instruments*". Refer to page 128 for details of the impact on transition to these standards.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of NEXT plc (the "Company") and its subsidiary undertakings. Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Associates and joint ventures are all entities over which the Group has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control of those policies. Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the change in net assets of the associate or joint venture after the acquisition date.

Fair Value Measurement

The Group measures financial instruments such as derivatives and non-listed equity investments at fair value at each Balance Sheet date.

The fair value is the price that would have been received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described in Note 26.

Foreign Currencies

The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and presentation currency. The Group includes foreign entities whose functional currencies are not Sterling. On consolidation, the assets and liabilities of those entities are translated at the exchange rates at the balance sheet date and income and expenses are translated at weighted average rates during the period. Translation differences are recognised in other comprehensive income.

Transactions in currencies other than an entity's functional currency are recorded at the exchange rate on the transaction date, whilst assets and liabilities are translated at exchange rates at the balance sheet date. Exchange differences are recognised in the Income Statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Revenue

Revenue represents the fair value of amounts receivable for goods and services and is stated net of discounts, value added taxes and returns. Revenue is recognised when control of the goods or services are transferred to the customer i.e. when the customer accepts delivery of those goods.

It is the Group's policy to sell its products to the retail customer with a right to return within 14 days. The Group 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 Group will be entitled. A separate right of return asset is recognised on the face of the Balance Sheet which represents the right to recover product from the customer. The refund liability due to customers on return of their goods is recognised either as a component of trade payables and other liabilities (for cash payments) or as a deduction from customer receivables (for purchases using the nextpay credit facility).

The Group does not operate any loyalty programmes. Deferred income in relation to gift card redemptions is estimated on the basis of historical redemption rates.

Online credit account interest is accrued on a time basis by reference to the principal outstanding, the provision held (where credit impaired) and the effective interest rate.

Royalty income is received from franchisees and is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Where third-party goods are sold on a commission basis, only the commission receivable is included in statutory revenue. To aid comparability, "total sales" are disclosed in the Strategic Report and in Note 1 of the financial statements. Total sales includes the full customer sales value of commission based sales and interest income, excluding VAT.

Dividend Income

Dividend income is recognised when the right to receive payment is established.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

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

Estimated useful lives are summarised as follows:

Freehold and long leasehold property	50 years
Plant and equipment	6 – 25 years
Leasehold improvements	the period of the lease, or useful life if shorter

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group'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. For the purposes of impairment testing, goodwill acquired is allocated to the Cash Generating Unit (CGU) that is expected to benefit from the synergies of the combination. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other Intangible Assets

Other intangible assets relate to the Lipsy brand names and trademarks obtained on acquisition which were initially recognised at fair value. They are amortised on a straight-line basis over their expected useful lives of 10 years.

Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable.

Investments

Investments in subsidiary companies (Parent Company only) are stated at cost, subject to review for impairment.

Impairment – non-financial assets

The carrying values of non-financial assets (excluding goodwill) are reviewed monthly 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 Income Statement. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Inventories

Inventories (stocks) are 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. Where hedge accounting applies, an adjustment is applied such that the cost of stock reflects the hedged exchange rate.

Financial instruments – initial recognition and subsequent measurement

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, and subsequently measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVPL). The classification is based on two criteria:

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

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

Registered in England & Wales - Company Number: 04412362

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

Under IFRS 9 the Group 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. Further details on the accounting for customer and other receivables is included on page 129.

For details on hedge accounting refer to page 130.

Subsequent measurement

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

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

The Group has designated its non-listed equity investments as held at fair value through OCI because these are investments that the Group intends to hold for long term strategic purposes.

Derecognition

A financial asset is derecognised primarily when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or b) the Group 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 Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. The most significant financial assets of the Group are its trade receivables, which are referred to as “customer and other receivables”. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. For further details on the accounting for ECLs on customer and other receivables refer to page 164.

Financial liabilities

Initial recognition and measurement

The Group has classified its financial liabilities as follows:

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

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

Subsequent measurement

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

Financial liabilities at FVPL	Subsequently measured at fair value. Gains and losses are recognised in the Income Statement.
Loans and borrowings	Subsequently measured at amortised cost using the EIR method. The EIR amortisation is included in finance costs in the Income Statement.
Corporate bonds	Subsequently measured at amortised cost and adjusted where hedge accounting applies (see interest rate derivatives on page 125). Accrued interest is included within other creditors and accruals.

Derecognition

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

Offsetting of financial instruments

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

Customer and Other Receivables

Customer receivables represent outstanding customer balances less an allowance for impairment. Customer receivables are recognised when the Group 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 Group 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 Group 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. 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 Group. 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 EIR. It is usually expressed as a percentage of the EAD. NEXT includes all cash collected over five years from the point of default.

The Group 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.

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 currency exchange rates relating to the purchase of overseas sourced products, overseas sales and changes in interest rates relating to the Group’s debt. In accordance with its treasury policy, the Group does not enter into derivatives for speculative purposes. Foreign currency and interest rate derivatives are stated at their fair value, being the estimated amount that the Group would receive or pay to terminate them at the balance sheet date based on prevailing foreign currency and interest rates.

The Group designates certain derivatives as either:

- a. Hedges of fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- b. Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Hedge documentation

At the inception of a hedge relationship, the Group 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.

Before 28 January 2018 (i.e. under IAS 39 “*Financial instruments: recognition and measurement*”), the document included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 28 January 2018 (i.e. under 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 Group 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 Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

Interest rate derivatives – fair value hedges

The Group uses interest rate derivatives to hedge part of the interest rate risk associated with the Company’s corporate bonds. The carrying values of the relevant bonds are adjusted only for changes in fair value attributable to the interest rate risk being hedged. The adjustment is recognised in the Income Statement and is offset by movements in the fair value of the derivatives.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

Foreign currency derivatives – cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Income Statement. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency and option contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. Where forward contracts are used to hedge forecast transactions, the Group designates the change in fair value relating to both the spot and forward components as the hedging instrument. The ineffective portion relating to foreign currency contracts is recognised as other gains/losses in the Income Statement.

The fair value of option contracts 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.

Prior to 28 January 2018 (i.e. under IAS 39 "*Financial instruments: recognition and measurement*"), the Group designated all of the contracts as the hedging instrument. Any gains or losses arising from changes in the fair value of derivatives were taken directly to profit or loss, except for the effective portion of cash flow hedges, which were recognised in OCI and later reclassified to profit or loss when the hedged item affects profit or loss.

Beginning 28 January 2018 (i.e. under IFRS 9 "*Financial instruments*"), the Group is now designating the intrinsic value of foreign currency options as hedging instruments for hedging relationships entered into from 28 January 2018. 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.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost for the carrying amount of the hedged asset or liability. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (e.g. when inventory impacts cost of sales). This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

Cash and Cash Equivalents

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and short term deposits, less bank overdrafts which are repayable on demand. Short term deposits are those with an original maturity of three months or less. Refer to Note 29 of the financial statements.

Pension Arrangements

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

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

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

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

The cost of defined contribution schemes is recognised in the Income Statement as incurred. The Group has no further payment obligations once the contributions have been paid.

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 Income Statement, as an employee benefit expense, over the vesting period of the option or award together with a corresponding increase in equity. The cumulative expense recognised is the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the Income Statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-service performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

No expense is recognised for awards that do not ultimately vest because of non-market performance and/or service conditions that have not been met. When awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are met.

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 Income Statement over the vesting period.

Taxation

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

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

Deferred tax is accounted for using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts. It is calculated using rates of taxation enacted or substantively enacted at the balance sheet date which are expected to apply when the asset or liability is settled.

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

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

Share Buybacks

The Group has regularly returned surplus cash to shareholders through share buybacks. Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable. The Company also uses contingent share purchase contracts and irrevocable closed period buyback programmes; the obligation to purchase shares is recognised in full at the inception of the contract, even when that obligation is conditional on the share price. Any subsequent reduction in the obligation caused by the expiry or termination of a contract is credited back to equity at that time. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Shares Held by ESOT

The NEXT Employee Share Ownership Trust (ESOT) provides for the issue of shares to Group employees, principally under share option schemes. Shares in the Company held by the ESOT are included in the Balance Sheet at cost, including any directly attributable incremental costs, as a deduction from equity.

Provisions

A provision is recognised where the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to the passage of time is recognised a finance cost.

Leasing Commitments

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

The Group has only operating leases, which are leases where the risks and rewards of ownership are not transferred to the Group. Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease. Contingent rentals payable based on store revenues are accrued in line with the related sales.

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

Major Sources of Estimation Uncertainty and Judgment

The preparation of the financial statements requires estimations and assumptions to be made that affect the reported values of assets, liabilities, revenues and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In applying the Group's accounting policies described above, the directors have identified that the following areas are the key estimates that have a significant risk of resulting in a material adjustment to the carrying value of assets and liabilities in the next financial year.

Expected credit losses on Online customer and other receivables

The provision for the allowance for expected credit losses (refer to Note 12) is calculated using a combination of internally and externally sourced information, including future default levels (derived from historical defaults overlaid by macro-economic assumptions), future cash collection levels (derived from past trends), arrears stage and credit rating and other credit data.

Once a customer receivable has defaulted, there is limited sensitivity associated with credit risk. Prior to default, the greatest sensitivity relates to the ability of customers to afford their payments (impacting the Probability of Default (PD) and the Exposure at Default (EAD)) and to the expected level of cash collectable following default (impacting the Loss Given Default (LGD)).

Deterioration in the ability of customers to afford their payments will cause an increase in PD and EAD. Management have sensitised the impact of a change in customer affordability on the PD and EAD by using a 10% deterioration and 10% improvement of Experian's average Customer Indebtedness Index. This results in a £10m increase and £10m decrease, respectively, in the allowance for Expected Credit Losses (ECL).

A 2% movement upwards (or downwards) in the expected rate of cash collectable following default reduces (or increases) the allowance for ECL by £2m.

In the five weeks following the year end date, £0.2bn of the £1.2bn NEXT customer and other trade receivables has been recovered. Management estimate that a further £0.1bn will be recovered by the date of signing of these financial statements.

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 circa £4m. A 2% change in the level of markdown applied to the selling price would impact the value of inventories going to clearance by circa £6m.

Defined benefit pension valuation

The assumptions applied in determining the defined benefit pension obligation (Note 19), are particularly sensitive to small changes in assumptions. Advice is taken from a qualified actuary to determine appropriate assumptions at each balance sheet date. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. A sensitivity analysis is shown in Note 19. 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.

Significant judgments

In the course of preparing the financial statements, no significant judgments have been made in the process of applying the Group's accounting policies, other than those involving estimations that have had a significant effect on the amounts recognised in the financial statements.

Adoption of new accounting standards, interpretations and amendments

For the financial period ended 26 January 2019 the Group 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 Group. The Group 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 Group 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.**

Sale of goods

The Group's contracts with customers for the sale of product generally include one performance obligation. The Group 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 Group's 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 Group 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 Group 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 *inventories*.

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 *inventories*. 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 nextpay credit offer continues to be presented as part of *customer receivables* (refer to Note 12) 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	764.0	–	764.0
Current assets			
Inventories	490.1	(23.4)	466.7
Customer and other receivables	1,248.2	–	1,248.2
Right of return asset	–	23.4	23.4
Other current assets	59.2	–	59.2

Total current assets	1,797.5	–	1,797.5
Current liabilities	(914.8)	–	(914.8)
Non-current liabilities	(1,164.1)	–	(1,164.1)
Net assets	482.6	–	482.6

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). Refer to Note 1 for further details on the impact of these adjustments.

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 Group 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 Group’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	Carrying amount under IAS 39 and IFRS 9 £m
Derivatives not designated as hedging instruments	Fair value through profit or loss	Fair value through profit or loss	2.4
Derivatives designated as hedging instruments	Fair value – hedging instrument	Fair value – hedging instrument	51.4
Customer and other receivables*	Loans and receivables	Amortised cost	1,153.0
Cash and short term deposits	Loans and receivables	Amortised cost	53.5
Non-listed equity instruments	Available-for-sale investments	Fair value through OCI	1.0

Financial liabilities	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39 and IFRS 9 £m
Derivatives not designated as hedging instruments	Fair value through profit or loss	Fair value through profit or loss	(4.2)
Derivatives designated as hedging instruments	Fair value – hedging instrument	Fair value – hedging instrument	(67.5)
Interest-bearing loans and borrowings:			
Corporate bonds	Loans and borrowings	Amortised cost – designated in hedge relationships	(908.5)
Bank loans and overdrafts	Loans and borrowings	Amortised cost	(180.0)
Trade and other payables at amortised cost**	Other financial liabilities	Amortised cost	(395.2)

* Prepayments of £94.2m and other debtors of £1.0m do not meet the definition of a financial instrument.

** Other taxation and social security payables of £62.4m, deferred income of £78.1m, property lease incentives of £250.7m, share-based payment liabilities of £1.5m and other creditors of £25.1m do not meet the definition of a financial instrument.

Impairment

The adoption of IFRS 9 has changed the Group’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. Further details of this ECL approach are included on page 164. **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 Group is selling product (is a “Merchant of Goods”) rather than a provider of financial instruments.

Hedge accounting

The Group 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 Group 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 Group's existing hedging relationships were eligible to be treated as continuing hedge relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group'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 Group's financial statements.

Prior to 28 January 2018, the Group 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 Group 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.

IFRS 16 "Leases"

IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. For NEXT the first reported accounting period under IFRS 16 will be the 2019/20 financial year.

On the adoption of IFRS 16, lease agreements will give rise to both a right of use asset and a lease liability for future lease payables. The right of use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the Income Statement over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

The Group has a large portfolio of leased properties and other equipment, including stores and warehouses. The minimum lease commitment on these at the financial year end is disclosed in Note 30: £1,678.7m (to lease end this is £1,826.1m).

The adoption of IFRS 16 has no effect on how the business is run, nor on the overall cash flows for the Group.

Transition

As previously disclosed, the Group has decided to adopt the fully retrospective transition approach, restating prior year comparatives. The Group will apply the practical expedient to grandfather the definition of a lease on transition and apply the recognition exemption for both short term and low value assets.

NEXT has established a working group to ensure we take all necessary steps to comply with the requirements of IFRS 16, reporting regularly to the Audit Committee. Significant work has been completed, including collection of relevant data, changes to IT systems and processes, and the determination of relevant accounting policies.

At January 2018 the weighted average discount rate, based on incremental borrowing rates, across the Group lease portfolio was 5.0%. The discount rate for each lease is dependent on lease start date and term.

Impact to financial statements

Restating the 2018/19 financial statements upon transition, NEXT will recognise (after including adjustments for working capital which exist under IAS 17) an opening right of use asset in the region of £1.0bn and a lease liability in the region of £1.4bn. The deferred tax asset would increase by £0.1bn in the restated financial statements. The retained earnings in the subsidiaries of the Group on transition will reduce by circa £0.2bn. **This adjustment will not cause any hindrance to the distribution of dividends to shareholders.**

The most significant lease liabilities relate to property. The liability is lower than that shown in the current Note 30 due to discounting the future payments.

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

The Income Statement will reflect an increase to profit before taxation for the year ending January 2019 of between £14m and £24m. Operating profit is expected to increase by circa £90m as the new depreciation charge will be lower than the current rental payments. Interest charge is expected to increase by circa £70m with the addition of higher finance costs. We do not expect the adoption of IFRS 16 to have a material impact on the Group's effective tax rate.

There will be no impact on cash flows, although the presentation of the Cash Flow Statement will change significantly, with an increase in net cash inflows from operating activities being offset by an increase in net cash outflows from financing activities (interest paid).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segmental Analysis

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Board. The performance of operating segments is assessed on profits

before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 *"Share-based payment"* and unrealised foreign exchange gains or losses on derivatives which do not qualify for hedge accounting. The activities, products and services of the operating segments are detailed in the Strategic Report on page 50.

The Property Management segment holds properties and property leases which are sublet to other segments and external parties. The NEXT International Retail segment comprises franchise and wholly owned stores overseas. International online sales are included in the NEXT Online segment.

Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. "Total sales" represents the full customer sales value of commission based sales and interest income, excluding VAT. Under IFRS 15, total sales have also been adjusted for customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances.

During the year the CODM altered the internal reporting of Group sales and profit to separately disclose the NEXT Finance business unit. This reporting better reflects the nature of the different business models within the Group. 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 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 by £8.2m and £1.1m respectively to show the prior year Lipsy.co.uk sales in NEXT Online for better comparability. Prior year segment reporting has also been restated to reflect the retrospective application of IFRS 15 (refer to Group Accounting Policies 'IFRS 15').

Segment sales and revenue

	52 weeks to 26 January 2019					
	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	1,955.1	(1.2)	2.0	1,955.9	4.6	1,960.5
NEXT Online	1,918.8	(92.5)	38.3	1,864.6	–	1,864.6
NEXT Finance	250.3	–	–	250.3	–	250.3
NEXT International Retail	62.2	–	–	62.2	–	62.2
NEXT Sourcing	6.9	–	–	6.9	543.2	550.1
	4,193.3	(93.7)	40.3	4,139.9	547.8	4,687.7
Lipsy	15.1	(0.1)	–	15.0	80.4	95.4
Property Management	12.5	–	–	12.5	202.9	215.4
Total segment sales/revenue	4,220.9	(93.8)	40.3	4,167.4	831.1	4,998.5
Eliminations	–	–	–	–	(831.1)	(831.1)
Total	4,220.9	(93.8)	40.3	4,167.4	–	4,167.4

	52 weeks to 27 January 2018					
	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Restated Total segment revenue £m
NEXT Retail	2,123.0	(1.0)	2.0	2,124.0	5.5	2,129.5
NEXT Online	1,672.4	(59.8)	33.2	1,645.8	–	1,645.8
NEXT Finance	223.2	–	–	223.2	–	223.2
NEXT International Retail	67.2	–	–	67.2	–	67.2
NEXT Sourcing	6.6	–	–	6.6	547.8	554.4
	4,092.4	(60.8)	35.2	4,066.8	553.3	4,620.1
Lipsy	16.0	(1.2)	–	14.8	62.1	76.9
Property Management	9.1	–	–	9.1	206.2	215.3
Total segment sales/revenue	4,117.5	(62.0)	35.2	4,090.7	821.6	4,912.3
Eliminations	–	–	–	–	(821.6)	(821.6)
Total	4,117.5	(62.0)	35.2	4,090.7	–	4,090.7

Segment profit

	2019 £m	2018 Restated £m	2018 As reported £m
Segment profit			
NEXT Retail	212.3	268.7	268.7
NEXT Online	352.6	309.8	461.2
NEXT Finance	121.2	111.9	–
NEXT International Retail	6.2	7.7	7.7
NEXT Sourcing	29.6	33.0	33.0
	721.9	731.1	770.6
Lipsv	11.0	4.9	6.0
Property Management	6.7	3.6	3.6
Total segment profit	739.6	739.6	780.2
Central costs and other	(5.4)	(6.1)	(6.1)
Recharge of interest to NEXT Finance	40.1	40.6	–
Share option charge	(13.8)	(14.1)	(14.1)
Other gains/(losses)	1.4	(1.1)	(1.1)
Trading profit	761.9	758.9	758.9
Share of results of associates and joint venture	0.1	1.0	1.0
Finance income	0.4	1.3	1.3
Finance costs	(39.5)	(35.1)	(35.1)
Profit before tax	722.9	726.1	726.1

Transactions between operating segments are made on an arm's length basis in a manner similar to those with third-parties. Segment revenue and segment profit include transactions between business segments which are eliminated on consolidation. The substantial majority of NEXT Sourcing's revenues and profits are derived from sales to NEXT Retail and NEXT Online.

Segment assets, capital expenditure and depreciation

	Property, plant and equipment		Capital expenditure		Depreciation	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
NEXT Retail	382.6	390.7	93.0	88.6	99.1	98.9
NEXT Online	95.0	82.3	31.8	10.9	18.4	17.4
NEXT Finance	–	–	–	–	–	–
NEXT International Retail	0.8	1.0	0.1	0.6	0.3	0.2
NEXT Sourcing	2.5	2.6	0.9	1.1	1.1	0.9
Lipsv	3.8	3.5	1.3	1.0	0.9	0.9
Property Management	80.2	78.8	1.5	2.0	0.3	0.3
Total	564.9	558.9	128.6	104.2	120.1	118.6

The Group's internal reporting includes values measured in a manner consistent with these financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Impairment charges in relation to property, plant and equipment are included in the NEXT Retail segment. Segment liabilities have not been disclosed as these are not regularly provided to the CODM.

Analyses of the Group's external revenues (by customer location) and non-current assets (excluding investments, the defined benefit pension surplus, other financial assets and deferred tax assets) by geographical location are detailed below:

	2019 £m	2018 Restated
External revenue by geographical location		

		£m
United Kingdom	3,656.9	3,641.7
Rest of Europe	279.2	243.9
Middle East	138.7	113.9
Asia	56.1	60.3
Rest of World	36.5	30.9
Total	4,167.4	4,090.7

	2019 £m	2018 £m
Non-current assets by geographical location		
United Kingdom	570.6	564.0
Rest of Europe	4.0	4.5
Middle East	4.3	4.3
Asia	28.6	29.0
Total	607.5	601.8

2. Total Revenue

The Group's disaggregated revenue recognised under contracts with customers relates to the following categories and operating segments:

	52 weeks to 26 January 2019				
	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Retail	1,955.9	–	–	–	1,955.9
NEXT Online	1,864.6	–	–	–	1,864.6
NEXT Finance	–	250.3	–	–	250.3
NEXT International Retail	56.7	–	5.5	–	62.2
NEXT Sourcing	6.9	–	–	–	6.9
Lipsv	12.9	–	2.1	–	15.0
Property Management	–	–	–	12.5	12.5
Total	3,897.0	250.3	7.6	12.5	4,167.4

	52 weeks to 27 January 2018 Restated				
	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Retail	2,124.0	–	–	–	2,124.0
NEXT Online	1,645.8	–	–	–	1,645.8
NEXT Finance	–	223.2	–	–	223.2
NEXT International Retail	59.6	–	7.6	–	67.2
NEXT Sourcing	6.6	–	–	–	6.6
Lipsv	13.2	–	1.6	–	14.8
Property Management	–	–	–	9.1	9.1
Total	3,849.2	223.2	9.2	9.1	4,090.7

3. Operating Profit

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

	2019 £m	2018 £m
Depreciation on tangible assets	120.1	118.6
Loss on disposal of property, plant and equipment	0.4	0.8
Impairment charges on tangible assets	1.8	3.2
Amortisation of intangible assets	0.3	0.4
Operating lease rentals:		
Minimum lease payments (net of amortisation of incentives)	221.2	225.1
Contingent rentals payable	3.7	5.1
Cost of inventories recognised as an expense	1,450.2	1,433.9
Write-down of inventories to net realisable value	102.8	116.1
	1,553.0	1,550.0

Cost of inventories recognised as an expense consists of those costs which are directly attributable to goods sold in the year, including packaging and inbound freight costs.

Other gains / (losses) reported in the Income Statement represent foreign exchange gains of £1.4m (2018: losses of £1.1m) in respect of derivative contracts which do not qualify for hedge accounting under IFRS 9 or IAS 39.

Other foreign exchange differences recognised in the Income Statement were gains of £11.1m (2018: £3.4m).

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates, including expenses:

	2019 £000	2018 £000
<i>Auditor's remuneration</i>		
Audit of the financial statements	297	262
Audit of subsidiaries	445	368
Total audit fees	742	630
Other assurance services	145	71
	887	701

4. Staff Costs and Key Management Personnel

Total staff costs were as follows:

	2019 £m	2018 £m
Wages and salaries	594.1	586.1
Social security costs	43.3	42.5
Other pension costs	29.2	21.9
	666.6	650.5
Share-based payments expense – equity-settled	13.8	14.1
Share-based payments benefit – cash-settled	(0.7)	(5.8)
Total	679.7	658.8

Share-based payments comprise Management options, Sharesave options and potential LTIP and SMP awards, details of which are given in Note 23. In March 2017 the terms and conditions of the cash-settled share-based payment schemes were altered mandating that all awards would be taken as shares. A net credit of £4.8m was recognised in the 2018 financial year on conversion of those share awards from cash-settled to equity-settled.

Total staff costs by business sector were made up as follows:

	2019 £m	2018 £m
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NEXT Retail, Online and Finance	618.3	604.3
NEXT International Retail	1.9	2.0
NEXT Sourcing	32.0	29.6
Other activities	27.5	22.9
Total	679.7	658.8

	Average employees		Full-time equivalents	
	2019 Number	2018 Number	2019 Number	2018 Number
NEXT Retail, Online and Finance	39,427	39,859	23,687	24,265
NEXT International Retail	113	133	90	106
NEXT Sourcing	4,116	3,725	4,116	3,725
Other activities	272	253	258	222
Total	43,928	43,970	28,151	28,318

The aggregate amounts charged in the accounts for key management personnel (including employer's National Insurance contributions), being the directors of NEXT plc, were as follows:

	2019 £m	2018 £m
Short term employee benefits	3.1	3.1
Post-employment benefits	0.1	0.3
Share-based payments	1.9	1.5
Total	5.1	4.9

Directors' remuneration is detailed in the Remuneration Report.

5. Finance Income and Costs

	2019 £m	2018 £m
Interest on bank deposits	0.1	0.1
Other fair value movements	0.2	–
Other interest receivable	0.1	1.2
Finance income	0.4	1.3
Interest on bonds and other borrowings	39.5	35.0
Other fair value movements	–	0.1
Finance costs	39.5	35.1

Online account interest is presented as a component of revenue.

6. Taxation

Tax charge for the year

Our tax charge for the year is shown below. Tax is made up of current and deferred tax. Current tax is the amount payable on the taxable income in the year and any adjustments to tax payable in previous years. Deferred tax is explained on page 127.

	2019 £m	2018 £m
<i>Current tax:</i>		
Current tax on profits for the year	145.3	147.8
Adjustments in respect of prior years	(7.1)	(12.2)
Total current tax	138.2	135.6
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(4.3)	(6.3)
Adjustments in respect of prior years	(1.4)	5.0
Tax expense reported in the Consolidated Income Statement	132.5	134.3

The tax charge for the year to January 2018 includes an amount of £3.2m within the adjustments in respect of prior years relating to the closure of open tax filings with HMRC.

Factors affecting the tax charge in the year

The tax rate for the current 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
Non-deductible expenses	0.6	0.5
Overseas tax differentials	(0.2)	(0.2)
Adjustments in respect of prior years	(1.1)	(1.0)
Effective total tax rate on profit before taxation	18.3	18.5

Tax recognised in other comprehensive income and equity

In addition to the amount charged to the Income Statement, tax movements recognised in other comprehensive income and in equity were as follows:

	2019 £m	2018 £m
<i>Deferred tax:</i>		
Pension benefit obligation	3.2	7.4
Fair value movements on derivative instruments	9.0	(14.2)
Tax charge / (credit) in other comprehensive income	12.2	(6.8)

	2019 £m	2018 £m
<i>Current tax:</i>		
Share-based payments	(1.0)	(1.0)
Exchange loss recognised outside of profit or loss	(0.8)	–
<i>Deferred tax:</i>		
Share-based payments	2.1	(3.4)
Tax charge / (credit) in the Statement of Changes in Equity	0.3	(4.4)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences that arise when the carrying value of assets and liabilities differ between accounting and tax treatments. Deferred tax assets represent the amounts of income taxes recoverable in the future in respect of those differences, while deferred tax liabilities represent the amounts of income taxes payable in the future in respect of those differences.

The deferred tax (liability)/asset is made up of:	2019 £m	2018 £m
Accelerated capital allowances	6.3	2.5
Revaluation of derivatives to fair value	(0.1)	9.1
Pension benefit obligations	(21.3)	(18.1)
Share-based payments	6.1	7.7
Other temporary differences	6.2	4.6
	(2.8)	5.8

The deferred tax movement in the year is as follows:	2019 £m	2018 £m
At the beginning of the year	5.8	(5.7)
Recognised in the Income Statement:		
Accelerated capital allowances	3.9	2.9
Revaluation of derivatives to fair value	(0.2)	0.1
Share-based payments	0.5	1.0
Other temporary differences	1.5	(2.7)
Recognised in Other Comprehensive Income	(12.2)	6.8
Recognised in the Statement of Changes in Equity	(2.1)	3.4
At the end of the year	(2.8)	5.8

Deferred tax (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. No recognition has been made of the following deferred tax assets:

	Gross value 2019 £m	Unrecognised deferred tax 2019 £m	Gross value 2018 £m	Unrecognised deferred tax 2018 £m
Capital losses	34.7	5.9	27.9	4.7

The benefit of unrecognised capital losses will only accrue if taxable profits are realised on future disposals of the Group's capital assets.

Factors affecting tax charges in future years

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The Group's effective tax rate is forecast to remain broadly in line with the current year.

Provisions, which are immaterial to the accounts, have been recognised in relation to uncertain tax positions. These relate to the interpretation of tax legislation, including changes arising from the OECD's Base Erosion and Profit Shifting project, that impact our NEXT Sourcing operation in its ordinary course of business. Any uncertainty is likely to lessen as the business responds to these rule changes.

NEXT 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.

7. Dividends

Year to 26 January 2019	Paid	Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m
Final ordinary dividend for year to Jan 2018	1 Aug 2018	105p	141.9	141.9
Interim ordinary dividend for year to Jan 2019	2 Jan 2019	55p	73.8	73.8
			215.7	215.7

Year to 27 January 2018	Paid	Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m
Special interim dividend	2 May 2017	45p	64.3	64.3
Final ordinary dividend for year to Jan 2017	1 Aug 2017	105p	149.3	149.3
Special interim dividend	1 Aug 2017	45p	64.0	64.0
Special interim dividend	1 Nov 2017	45p	63.8	63.8
Interim ordinary dividend for year to Jan 2018	2 Jan 2018	53p	74.8	74.8
Special interim dividend	25 Jan 2018	45p	63.5	63.5
			479.7	479.7

It is intended that this year's ordinary final dividend of 110p per share will be paid to shareholders on 1 August 2019. NEXT plc shares will trade ex-dividend from 4 July 2019 and the record date will be 5 July 2019. The estimated amount payable is £141.8m. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The Trustee of the ESOT has waived dividends paid in the year on shares held by the ESOT.

8. Earnings Per Share

	2019	2018
Basic Earnings Per Share	435.3p	416.7p

Basic Earnings Per Share is based on the profit for the year attributable to the equity holders of the Parent Company divided by the net of the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOT during the period.

	2019	2018
Diluted Earnings Per Share	433.0p	415.7p

Diluted Earnings Per Share is calculated by adjusting the weighted average number of shares used for the calculation of basic Earnings Per Share as increased by the dilutive effect of potential ordinary shares. Dilutive shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period. Their dilutive effect is calculated on the basis of the equivalent number of nil cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. There were 3,508,782 non-dilutive share options in the current year (2018: 4,779,181).

	2019	2018
Fully diluted Earnings Per Share	414.9p	399.7p

Fully diluted Earnings Per Share is based on the weighted average number of shares used for the calculation of basic Earnings Per Share, increased by the weighted average total employee share options outstanding during the period. Underlying fully diluted Earnings Per Share is used for the purposes of the Share Matching Plan, described further in Note 23.

The table below shows the key variables used in the Earnings Per Share calculations:

	2019	2018
Profit after tax attributable to equity holders of the Parent Company (£m)	590.4	591.8
Weighted average number of shares (millions)		
Weighted average shares in issue	140.8	146.7
Weighted average shares held by ESOT	(5.2)	(4.7)
Weighted average shares for basic EPS	135.6	142.0
Weighted average dilutive potential shares	0.7	0.4
Weighted average shares for diluted EPS	136.3	142.4
Weighted average shares for basic EPS	135.6	142.0
Weighted average total share options outstanding	6.7	6.0
Weighted average shares for fully diluted EPS	142.3	148.0

As detailed in the Remuneration Report, the annual bonus for executive directors is determined by reference to underlying pre-tax Earnings per Share of 532.9p (2018: 511.3p). This is calculated using 52 week underlying pre-tax profit of £722.9m (2018: £726.1m) as shown in Note 1 divided by the net of the weighted average number of shares in issue less the weighted average number of shares held by the ESOT during the period.

9. Property, Plant and Equipment

	Freehold property £m	Leasehold property £m	Plant and equipment £m	Total £m
Cost				
At January 2017	78.4	9.4	1,703.3	1,791.1
Exchange movement	–	–	(1.4)	(1.4)
Additions	2.0	–	102.2	104.2
Disposals	(0.9)	–	(75.6)	(76.5)
At January 2018	79.5	9.4	1,728.5	1,817.4
Exchange movement	–	–	(0.2)	(0.2)
Additions	1.3	–	127.3	128.6
Disposals	–	(0.2)	(70.6)	(70.8)
At January 2019	80.8	9.2	1,785.0	1,875.0
Depreciation				
At January 2017	8.2	1.6	1,202.7	1,212.5
Exchange movement	–	–	(1.1)	(1.1)
Provided during the year	0.2	–	118.4	118.6
Impairment charge	–	–	3.2	3.2
Disposals	–	–	(74.7)	(74.7)
At January 2018	8.4	1.6	1,248.5	1,258.5
Exchange movement	–	–	(0.2)	(0.2)
Provided during the year	0.2	–	119.9	120.1
Impairment charge	–	–	1.8	1.8
Disposals	–	(0.2)	(69.9)	(70.1)
At January 2019	8.6	1.4	1,300.1	1,310.1

Carrying amount				
At January 2019	72.2	7.8	484.9	564.9
At January 2018	71.1	7.8	480.0	558.9
At January 2017	70.2	7.8	500.6	578.6

At January 2019 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £63.8m (2018: £12.8m).

Impairment charges relate to the impairment of shop fittings on loss-making stores.

10. Intangible Assets

	Brand names and trademarks £m	Goodwill £m	Total £m
Cost			
At January 2017, January 2018 and January 2019	4.0	44.2	48.2
Amortisation and impairment			
At January 2017	3.3	1.6	4.9
Amortisation provided during the year	0.4	–	0.4
At January 2018	3.7	1.6	5.3
Amortisation provided during the year	0.3	–	0.3
At January 2019	4.0	1.6	5.6
Carrying amount			
At January 2019	–	42.6	42.6
At January 2018	0.3	42.6	42.9
At January 2017	0.7	42.6	43.3

The carrying amount of goodwill is allocated to the following cash generating units:

	2019 £m	2018 £m
NEXT Sourcing	30.5	30.5
Lipsy	12.1	12.1
	42.6	42.6

Goodwill is tested for impairment at the balance sheet date on the basis of value in use calculations. As this exceeded carrying value for each of the cash generating units concerned, no impairment loss was recognised (2018: £nil).

NEXT Sourcing

The key assumptions in testing the goodwill for impairment are the future sourcing requirements of the Group and the ability of NEXT Sourcing to meet these requirements based on past experience. In assessing value in use, budgets for the next year were used and extrapolated for four further years using a growth rate of -10% (2018: -10% growth rate) and discounted at a pre-tax rate of 10% (2018: 10%).

Lipsy

In assessing the recoverable amount of goodwill, internal budgets for next year were used and extrapolated for nine further years using a growth rate of 2% to 13% (2018: 2%) and discounted at a pre-tax rate of 12% (2018: 12%).

For both NEXT Sourcing and Lipsy, the calculated value in use significantly exceeded the carrying value of the goodwill. Therefore, there is no reasonably possible change in any of the key assumptions that would give rise to an impairment.

11. Associates, Joint Venture and Other Investment

	Interests in associates and joint venture £m	Other investment £m	Total £m
Cost			
At January 2017	1.3	1.0	2.3
Additions	–	–	–
Retained profit/(loss)	–	–	–
Disposals	–	–	–
At January 2018	1.3	1.0	2.3
Additions	3.0*	–	3.0
Retained loss	–	–	–
Disposals	–	–	–
At January 2019	4.3	1.0	5.3
Amortisation/Impairment			
At January 2017	0.2	–	0.2
Provided during the year	–	–	–
Impairment charge	–	–	–
Disposals	–	–	–
At January 2018	0.2	–	0.2
Provided during the year	–	–	–
Impairment charge	–	–	–
Disposals	–	–	–
At January 2019	0.2	–	0.2
Carrying amount			
At January 2019	4.1	1.0	5.1
At January 2018	1.1	1.0	2.1
At January 2017	1.1	1.0	2.1

*relates to the purchase of a 30% share in Custom Gateway Limited.

12. Customer and Other Receivables

The following table shows the components of net receivables:

	2019 £m	2018 £m
Gross customer receivables	1,417.2	1,295.8
Less: refund liabilities	(44.5)	(40.2)
Net customer receivables	1,372.7	1,255.6
Less: allowance for expected credit losses (calculated under IFRS 9)	(165.5)	–
Less: allowance for doubtful debts (calculated under IAS 39)	–	(138.7)
	1,207.2	1,116.9
Other trade receivables	23.8	21.7
Less: allowance for expected credit losses (calculated under IFRS 9)	(0.5)	–
Less: allowance for doubtful debts (calculated under IAS 39)	–	(0.1)
	1,230.5	1,138.5
Presentation of the above, split by total receivables and allowances:		

Net customer receivables	1,372.7	1,255.6
Other trade receivables	23.8	21.7
	1,396.5	1,277.3
Less: allowance for expected credit losses (calculated under IFRS 9)	(166.0)	–
Less: allowance for doubtful debts (calculated under IAS 39)	–	(138.8)
	1,230.5	1,138.5
Prepayments	91.6	94.2
Other debtors	14.7	13.4
Amounts due from associate and joint venture	3.0	2.1
	1,339.8	1,248.2

No interest is charged on customer receivables if the statement balance is paid in full and to terms; otherwise balances bear interest at a variable annual percentage rate of 23.9% at the year end date (2018: 22.9%), except for £3.1m of nextstep balance that bears interest at 29.9% (2018: Not applicable).

The Group 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.

The fair value of customer receivables and other trade receivables is approximately £1,170m. This has been calculated based on future cash flows discounted at an appropriate rate for the risk of the debt. The fair value is within Level 3 of the fair value hierarchy (refer to the Fair Value Hierarchy table in Note 26).

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 receivables which were known to be uncollectable were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognised in a separate provision for impairment. The Group 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 debtors and prepayments do not include impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset.

An analysis of changes in the gross carrying amount in relation to customer receivables and other trade receivables is as follows:

	2019		
	Lifetime ECL £m	Credit Impaired £m	Total £m
Gross carrying amount			
At 28 January 2018	1,219.3	58.0	1,277.3
New assets originated	1,972.2	–	1,972.2
Recoveries	(1,807.2)	(10.8)	(1,818.0)
Transfers from lifetime ECL to credit impaired	(55.8)	55.8	–
Financial assets derecognised during the period	–	(17.9)	(17.9)
Amounts written off	(11.0)	(6.1)	(17.1)
At 26 January 2019	1,317.5	79.0	1,396.5

An analysis of the changes in the impairment allowance for customer receivables and other trade receivables is as follows:

	2019		
	Lifetime ECL £m	Credit Impaired £m	Total £m
Loss allowance			
At 28 January 2018	(85.7)	(53.1)	(138.8)

New assets originated	(86.9)	–	(86.9)
Recoveries	79.4	10.0	89.4
Transfers from lifetime ECL to credit impaired	4.0	(51.4)	(47.4)
Change in the allowance for expected credit losses	(4.2)	(1.0)	(5.2)
Financial assets derecognised during the period	–	16.5	16.5
Amounts written off	0.8	5.6	6.4
At 26 January 2019	(92.6)	(73.4)	(166.0)

Impairment losses on customer and other receivables for the 52 weeks to 27 January 2018 includes the release of a £12m provision for potential exposures in relation to customer receivables. This element of provision was re-accrued into other creditors and charged to the Income Statement in administrative expenses, such that there was no overall impact on the profit for the year. The underlying charge for Impairment losses on customer and other receivables for the 52 weeks to 27 January 2018 was therefore £36m.

	2019		2018	
	Lifetime ECL	Credit impaired	Total	Incurred loss
Opening balance	(85.7)	(53.1)	(138.8)	(137.8)
Impairment	(12.6)	(47.0)	(59.6)	(28.5)
Amounts recovered	1.1	5.8	6.9	4.2
Charged to the Income Statement	(11.5)	(41.2)	(52.7)	(24.3)
Used during the year	4.6	20.9	25.5	23.3
Total movement	(6.9)	(20.3)	(27.2)	(1.0)
Closing balance	(92.6)	(73.4)	(166.0)	(138.8)

Information on the Group's credit risk in relation to customer receivables is provided in Note 27.

13. Other Financial Assets

	2019		2018	
	Current £m	Non-current £m	Current £m	Non-current £m
Foreign exchange contracts	9.9	–	5.7	–
Interest rate derivatives	–	41.5	–	48.1
	9.9	41.5	5.7	48.1

Foreign exchange contracts comprise forward contracts and options, the majority of which are used to hedge exchange risk arising from the Group's merchandise purchases (refer to Note 27). These instruments are primarily for US Dollars and Euros. Interest rate derivatives are used to manage the fixed and floating interest rate risk associated with the corporate bonds (refer to Note 18).

14. Cash and Short Term Deposits

	2019 £m	2018 £m
Cash at bank and in hand	156.3	52.8
Short term deposits	–	0.7
	156.3	53.5

Cash at bank represents the gross cash positions of which the majority are part of the Group's bank account and interest and balance pooling arrangements. Short term deposits are made for varying periods of between one day and three months depending on the cash requirements of the Group and earn interest at short term market deposit rates.

15. Bank Loans and Overdrafts

	2019 £m	2018 £m
Bank overdrafts and short term borrowings	122.3	45.0
Unsecured committed bank loans	255.0	135.0
	377.3	180.0

Bank overdrafts represents the gross overdraft positions of which the majority are part of the Group's bank account interest and balance pooling arrangements. Bank overdrafts are repayable on demand and bear interest at a margin over bank base rates. Unsecured bank loans relate to amounts drawn under a medium term bank revolving credit facility which bear interest at a margin above LIBOR (refer to Note 27).

16. Trade Payables and Other Liabilities

	2019		2018	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade payables	218.8	–	168.4	–
Refund liabilities	6.2	–	10.9	–
Other taxation and social security	68.3	–	62.4	–
Deferred revenue from sale of gift cards	75.4	–	78.1	–
Property lease incentives	34.7	214.0	32.6	218.1
Share-based payment liability	0.2	0.2	0.8	0.7
Other creditors and accruals	237.1	3.3	227.0	14.0
	640.7	217.5	580.2	232.8

Trade payables do not bear interest and are generally settled on 30 day terms. Other creditors and accruals do not bear interest. Property lease incentives are classified as non-current to the extent that they will be credited to the Income Statement more than one year from the balance sheet date.

17. Other Financial Liabilities

	2019		2018	
	Current £m	Non-current £m	Current £m	Non-current £m
Foreign exchange contracts	9.4	–	59.3	–
Interest rate derivatives	–	9.2	–	12.4
	9.4	9.2	59.3	12.4

Foreign exchange contracts comprise forward contracts and options, the majority of which are used to hedge exchange risk arising from the Group's merchandise purchases (Note 27). These instruments are primarily for US Dollars and Euros. Interest rate derivatives are used to manage the fixed and floating interest rate risk associated with the corporate bonds (Note 18).

18. Corporate Bonds

	Balance sheet value		Nominal value	
	2019 £m	2018 £m	2019 £m	2018 £m
Corporate bond 5.375% repayable 2021	327.5	328.4	325.0	325.0
Corporate bond 4.375% repayable 2026	277.7	280.1	250.0	250.0
Corporate bond 3.625% repayable 2028	300.0	300.0	300.0	300.0
	905.2	908.5	875.0	875.0

The Group uses interest rate derivatives to manage the interest rate risk associated with its bonds, the profile of which is shown below:

	2019 Nominal value	2019 Aggregate interest	2018 Nominal value	2018 Aggregate interest
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	£m	rate	£m	rate
<i>2021 bonds</i>				
Fixed	150.0	5.375%	150.0	5.375%
Fixed	50.0	5.200%	50.0	5.200%
Fixed	50.0	5.150%	50.0	5.150%
Fixed	50.0	5.050%	50.0	5.050%
Floating	25.0	6m LIBOR +1.9%	25.0	6m LIBOR +1.9%
	325.0		325.0	
<i>2026 bonds</i>				
Floating	250.0	6m LIBOR +1.4%	250.0	6m LIBOR +1.4%
<i>2028 bonds</i>				
Fixed	300.0	3.625%	300.0	3.625%
Total	875.0		875.0	

Interest rate risk management is explained in Note 27 and the fair values of the corporate bonds are shown in Note 26.

19. 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 trustee of both Plans is a limited company, NEXT Pension Trustees Limited (the "Trustee"). The Board of the Trustee currently comprises five directors. Four of these are members of the 2013 Plan, and one director (the Chair) is independent and has no other connection to NEXT. Two of these directors are member nominated directors and cannot be removed by NEXT. The other three directors, including the independent director, 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.

The Group operates a salary sacrifice scheme whereby members from either section can elect to receive a reduced gross salary in exchange for enhanced employer pension contributions. The participation of members in the salary sacrifice scheme does not result in any overall increase in costs to 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.

Defined benefit section

The defined benefit section was closed to new members in 2000. Since 2012, the accrual of pension benefits has been based on pensionable salary frozen at October 2012, rather than final earnings. Those employees can also elect to receive up to a 15% salary supplement or additional contributions to the defined contribution section. The defined benefit section now provides members with a retirement benefit of one sixtieth or one eightieth (depending on the member's chosen contribution rate) of pensionable earnings at October 2012 for each year of pensionable service.

The defined benefit section provides a lump sum death in service benefit and dependants' pensions on death in service or following retirement. In the case of ill-health retirement, only the accrued pension is payable. All benefits are subject to 2013 Plan limits. Increases to pensions in payment are at the discretion of the Trustee although pensionable service post 1997 is subject to limited price indexation. From 2006, sales and profit related bonuses were excluded from pensionable earnings and the normal retirement age under the Original Plan was increased from 60 to 65.

Certain members whose accrued or projected pension fund value exceeds their personal lifetime allowance are provided with benefits through an unfunded, unapproved supplementary pension arrangement. The relevant members contribute towards the additional cost of providing these benefits by a payment of 5% on all pensionable earnings to the 2013 Plan. Since April 2011, where existing members have reached either the annual or lifetime pension contributions limits, the Company has offered those members the choice of leaving the defined benefit section and either joining the defined contribution section (with an enhanced Company contribution) or taking a salary supplement, in both cases equal to 10% or 15% of their salary (depending on their existing contributions and benefits).

Principal risks

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

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

The buy-in insurance contracts represent over 99% of the Original Plan pension liabilities, 13% of the 2013 Plan pension liabilities and 28% of the total pension liabilities. This partially offsets the total risks described above. Derivatives are not used to hedge any of the risks noted above.

Income statement

The components of the net defined benefit expense recognised in the Consolidated Income Statement are as follows:

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

Other comprehensive income

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

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

Balance sheet valuation

The net defined benefit pension asset recognised in the Consolidated Balance Sheet is analysed as follows:

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

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

Plan obligations

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

	2019				2018			
	2013 Plan £m	Original Plan £m	SPA £m	Total £m	2013 Plan £m	Original Plan £m	SPA £m	Total £m
Opening obligation	667.3	146.0	17.0	830.3	646.6	148.0	16.3	810.9
Current service cost	7.8	–	0.4	8.2	8.3	–	0.4	8.7
GMP equalisation	0.4	–	–	0.4	–	–	–	–
Interest cost	16.5	3.4	0.4	20.3	17.9	3.8	0.5	22.2
Employee contributions	0.1	–	–	0.1	0.1	–	–	0.1
Benefits paid	(18.3)	(7.6)	(0.1)	(26.0)	(16.6)	(7.7)	–	(24.3)
Actuarial (gains)/losses								
– financial assumptions	(62.6)	(3.8)	(1.3)	(67.7)	32.5	3.9	(0.4)	36.0
– experience	–	(2.5)	(0.3)	(2.8)	(4.4)	0.2	(0.4)	(4.6)
– demographic assumptions	6.6	(1.0)	0.3	5.9	(17.1)	(2.2)	0.6	(18.7)
Closing obligation	617.8	134.5	16.4	768.7	667.3	146.0	17.0	830.3

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

Plan assets

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

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

The fair value of plan assets was as follows:

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

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

Principal assumptions

The IAS 19 (accounting) valuation of the defined benefit obligation was undertaken by an external qualified actuary as at January 2019 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

	2019		2018	
	Original plan	2013 and SPA	Original plan	2013 and SPA

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

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

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

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

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

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

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

Sensitivity analysis

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

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

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

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

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.

Contributions

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

Contributions paid by the Group during the year are set out below:

	2019 £m	2018 £m
Defined contribution – recognised as an expense	14.3	11.6
Automatic enrolment – recognised as an expense	7.2	1.8
Defined benefit	7.7	8.4
	29.2	21.8

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

20. Provisions

	Vacant property costs	
	2019 £m	2018 £m
At the beginning of the year	10.4	6.7
Provisions made in the year	6.9	7.0
Utilisation of provisions	(4.5)	(2.0)
Release of provisions	(2.9)	(1.6)
Unwind of discount	0.4	0.3
At the end of the year	10.3	10.4

Provision is made for the committed cost of future rentals or estimated exit costs of properties no longer occupied by the Group. The average remaining lease term for these properties is 8 years (2018: 8 years).

21. Share Capital

	2019 Shares '000	2018 Shares '000	2019 £m	2018 £m
Allotted, called up and fully paid				
<i>Ordinary shares of 10p each</i>				
At the start of the year	144,882	147,057	14.5	14.7
Purchased for cancellation in the year	(6,276)	(2,175)	(0.6)	(0.2)
At the end of the year	138,606	144,882	13.9	14.5

The table below shows the movements in equity from share purchases and commitments during the year:

	2019		2018	
	Shares '000	Cost £m	Shares '000	Cost £m
Shares purchased for cancellation in the year	6,276	324.2	2,175	106.1
Amount shown in Statement of Changes in Equity		324.2		106.1

Subsequent to the end of the financial year and before the start of the closed period, the Company purchased for cancellation 1,023,306 shares at a cost of £50.2m.

22. Other Reserves

Other reserves in the Consolidated Balance Sheet comprise the reserve created on reduction of share capital through a Scheme of Arrangement under Section 425 of the Companies Act 1985 (£1,460.7m) less share premium account (£3.8m) and capital redemption reserve (£8.7m) at the time of a capital reconstruction in 2002, plus the accumulated amount of goodwill arising on acquisition after taking into account subsequent disposals (£0.7m), less the unrealised component of revaluations of properties arising under previous accounting standards (£5.1m) as at the date of transition to IFRS.

23. Share-based Payments

The Group operates a number of share-based payment schemes as follows:

Management share options

The NEXT Management Share Option Plan provides for options over shares, exercisable between three and ten years following their grant, to be allocated to Group employees at the discretion of the Remuneration Committee. This plan is primarily aimed at middle management and senior store staff. No options were granted to any directors or changes made to existing entitlements in the year under review. No employee is entitled to be granted options under the scheme if, in the same financial year, they have received an award under NEXT's Long Term Incentive Plan or Share Matching Plan.

The total number of options which can be granted is subject to limits. There are no cash-settlement alternatives and they are therefore accounted for under IFRS 2 as equity-settled awards. Option prices are set at the prevailing market price at the time of grant. The maximum total market value of shares (i.e. the acquisition price of shares) over which options may be granted to any person during any financial year of the Company is three times salary, excluding bonuses and benefits in kind. This limit may be increased to five times salary in circumstances considered by the Remuneration Committee to be exceptional, for example on the grant of options following recruitment. Grants are generally made annually.

Sharesave options

The Company's Save As You Earn (Sharesave) scheme is open to all UK employees. Invitations to participate are generally issued annually and the scheme is subject to HMRC rules. The current maximum monthly savings for the schemes detailed below is £250. Options are granted at the prevailing market rate less a discount of 20% and are exercisable three or five years from the date of grant. A similar Sharesave scheme is open to the Company's Eire employees. Sharesave options are also accounted for as equity-settled awards under IFRS 2.

Management and Sharesave options

The following table summarises the movements in Management and Sharesave options during the year:

	2019		2018	
	No. of options	Weighted average exercise price	No. of options	Weighted average exercise price
Outstanding at beginning of year	5,582,795	£47.12	5,064,951	£47.61
Granted	1,477,311	£47.35	1,696,653	£41.31
Exercised	(416,282)	£36.66	(411,350)	£28.49
Forfeited	(525,669)	£49.23	(767,459)	£47.46
Outstanding at end of year	6,118,155	£47.71	5,582,795	£47.12
Exercisable at end of year	1,794,711	£53.85	1,610,693	£45.06

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 January 2019 are exercisable at prices ranging between £13.99 and £70.80 (2018: £10.81 and £70.80) and have a weighted average remaining contractual life of 5.9 years (2018: 6.0 years), as analysed below:

	2019		2018	
	No. of options	Weighted average remaining contractual life (years)	No. of options	Weighted average remaining contractual life (years)
Exercise price range				
£10.81 – £38.25	1,079,737	1.9	1,290,078	2.8
£41.09	1,150,125	8.2	1,257,902	9.2
£41.12 – £42.08	894,123	3.5	917,899	4.3

£48.38	1.118.063	9.2	–	–
£51.84 – £59.76	859.435	6.6	1,024,461	6.9
£66.95 – £70.80	1.016.672	5.7	1,092,455	6.7
	6.118.155	5.9	5,582,795	6.0

Share Matching Plan (SMP)

The SMP is an equity-settled scheme open to a small number of senior executives below Board level. Executive directors are no longer granted SMP awards. Participants who invest a proportion of any annual cash bonus in NEXT shares will 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 maximum matching ratio available under the SMP rules is 3:1, matching the pre-tax equivalent of the amount invested in shares. For any SMP grants made from 2018, participants will be entitled to receive ordinary and special dividend accruals on any awards vesting under the SMP.

The Remuneration Committee's policy is to set performance measures by reference to underlying fully diluted post-tax EPS but the Committee has flexibility to use different measures. Under the formulae, a notional adjustment is made to actual EPS achieved for special dividends, on the basis that the cash distributed had instead been used to purchase shares at the prevailing share price on the day of the special dividend payment.

The following table summarises the movements in nil cost SMP options during the year:

	2019 No. of options	2018 No. of options
Outstanding at beginning of year	45,564	76,946
Granted	10,374	17,298
Exercised	–	(43,228)
Forfeited	(16,484)	(5,452)
Outstanding at end of year	39,454	45,564
Exercisable at end of year	–	–

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

Long Term Incentive Plan (LTIP)

As explained in the Remuneration Report, the Group operates an LTIP scheme for executive directors and other senior executives. Prior to January 2014, all LTIP awards were accounted for as cash-settled share-based payments. From January 2014 onwards, new LTIP grants to executive directors are settled in shares with no cash-settlement alternative. Awards to other senior executives were generally cash-settled until March 2017, since that date they are settled in shares. As a result, all LTIP awards are now accounted for under IFRS 2 as equity-settled. Performance conditions for the LTIP awards are detailed in the Remuneration Report.

Equity-settled LTIP awards

The following table summarises the movements in nil cost equity-settled LTIP awards during the year:

	2019 No. of awards	2018 No. of awards
Outstanding at beginning of year	487,442	164,783
Granted	186,306	222,467
Vested	(11,442)	(12,752)
Forfeited	(185,417)	(134,668)
Change in accounting (cash to equity)	–	247,612
Outstanding at end of year	476,889	487,442

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

Cash-settled LTIP awards

During the year ending 27 January 2018, the remaining 247,612 cash-settled LTIP awards were transferred to an equity-settled accounting method resulting in a credit in the year of £5.8m of which £0.1m related to the executive directors.

Fair value calculations

The fair value of Management, Sharesave and SMP options granted is calculated at the date of grant using a Black-Scholes option pricing model. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equivalent to the expected life of the option. The expected life applied in the model is based on historical analyses of exercise patterns, taking into account any early exercises. The following table lists the inputs to the model used for options granted in the years ended 26 January 2019 and 27 January 2018 based on information at the date of grant:

Management share options	2019	2018
Share price at date of grant	£48.38	£41.09
Exercise price	£48.38	£41.09
Volatility	28.40%	25.90%
Expected life	4 years	4 years
Risk free rate	1.06%	0.32%
Dividend yield	3.27%	3.85%
Weighted average fair value per option	£8.09	£5.35

Sharesave plans	2019	2018
Share price at date of grant	£54.34	£52.60
Exercise price	£43.48	£42.08
Volatility	31.35%	29.20%
Expected life	3.3 years	3.3 years
Risk free rate	0.79%	0.63%
Dividend yield	2.91%	3.00%
Weighted average fair value per option	£14.07	£12.77

SMP	2019	2018
Share price at date of grant	£51.86	£41.85
Exercise price	Nil	Nil
Volatility	31.10%	27.80%
Expected life	3 years	3 years
Risk free rate	0.93%	0.21%
Dividend yield	0.00%	3.78%
Weighted average fair value per option	£51.86	£37.37

The fair value of equity-settled LTIP awards granted is calculated at the date of grant using a Monte Carlo option pricing model. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equivalent to the life of the award. The following table lists the inputs to the model used for awards granted in the year ended 26 January 2019 and 27 January 2018 based on information at the date of grant:

Equity-settled LTIP awards (granted in March)	2019	2018
Share price at date of grant	£48.75	£41.99
Award price	Nil	Nil
Volatility	30.62%	27.10%
Life of award	3 years	3 years
Risk free rate	0.95%	0.30%
Dividend yield	0.00%	3.76%
Fair value per award	£22.78	£16.74

Fair value calculations (continued)

Equity-settled LTIP awards (granted in September)	2019	2018
Share price at date of grant	£54.00	£50.45
Award price	Nil	Nil
Volatility	31.40%	29.40%

Life of award	3 years	3 years
Risk free rate	0.87%	0.52%
Dividend yield	0.00%	0.00%
Fair value per award	£26.27	£23.45

From September 2017, for all new LTIP awards, dividend accruals (both in respect of special and ordinary dividends) may be payable on vested awards.

24. Shares Held by ESOT

The NEXT 2003 ESOT has an independent trustee resident in Jersey and provides for the issue of shares to Group employees, including share issues under share options, at the discretion of the Trustee. All Management and Sharesave options which were exercised during the year were satisfied by shares issued from the ESOT.

At 26 January 2019 the ESOT held 5,463,200 (2018: 4,826,665) ordinary shares of 10p each in the Company, the market value of which amounted to £261.0m (2018: £251.8m). Details of outstanding share options are shown in Note 23.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOT at 26 January 2019 and 27 January 2018 has been shown as an ESOT reserve and presented within equity for the Company and the Group. All other assets, liabilities, income and costs of the ESOT have been incorporated into the accounts of the Company and the Group.

The table below shows the movements in equity from ESOT share purchases during the year:

	2019		2018	
	Shares '000	£m	Shares '000	£m
Shares purchased by ESOT in the year	1,085	61.9	842	37.0
Shares issued on employee option exercises	448	15.3	431	10.3

Proceeds of £15.8m (2018: £11.3m) were received on the exercise of Management and Sharesave options. The amount shown in the Statement of Changes in Equity of £15.3m (2018: £10.3m) is after the issue of any nil cost LTIP, SMP and Deferred bonus shares. The weighted average cost of shares issued by the ESOT was £21.9m (2018: £20.8m).

At 20 March 2019, employee share options over 58,369 shares had been exercised subsequent to the balance sheet date and had been satisfied by ordinary shares issued by the ESOT.

25. Financial Instruments: Categories

	2019 £m	2018 £m
<i>Financial assets</i>		
Derivatives not designated as hedging instruments	0.1	2.4
Derivatives designated as hedging instruments	51.3	51.4
Customer and other receivables at amortised cost*	1,247.8	1,153.0
Cash and short term deposits	156.3	53.5
Non-listed equity instruments designated at fair value through OCI	1.0	1.0
<i>Financial liabilities</i>		
Derivatives not designated as hedging instruments	(0.6)	(4.2)
Derivatives designated as hedging instruments	(18.0)	(67.5)
Interest-bearing loans and borrowings:		
Corporate bonds at amortised cost adjusted for the fair value changes attributable to the risk being hedged	(905.2)	(908.5)
Bank loans and overdrafts at amortised cost	(377.3)	(180.0)

Trade and other payables at amortised cost**	(437.1)	(395.2)
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* Prepayments of £91.6m (2018: £94.2m) and other debtors of £0.4m (2018: £1.0m) do not meet the definition of a financial instrument.

** Other taxation and social security payables of £68.3m (2018: £62.4m), deferred income of £75.4m (2018: £78.1m), property lease incentives of £248.7m (2018: £250.7m), share-based payment liabilities of £0.4m (2018: £1.5m) and other creditors of £28.3m (2018: £25.1m) do not meet the definition of a financial instrument.

26. Financial Instruments: Fair Values

The fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's Balance Sheet, other than corporate bonds, based on the following assumptions:

Trade receivables, trade payables, short term deposits and borrowings	The fair value approximates the carrying amount because of the short maturity of these instruments.
Long term borrowings	The fair value of bank loans and other borrowings approximates the carrying value reported in the balance sheet as the majority are floating rate where interest rates are reset at intervals less than one year.
Derivative financial instruments	The fair value is determined as the net present value of cash flows using observable market rates at the reporting date.

The fair value of corporate bonds is as follows:

	2019		2018	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Corporate bonds				
In hedging relationships	455.2	461.3	458.5	478.8
Not in hedging relationships	450.0	469.0	450.0	487.9
	905.2	930.3	908.5	966.7

Corporate bonds are held at amortised cost adjusted for the fair value changes attributable to the interest rate risk being hedged.

Fair Value Hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels under IFRS 13 "Fair value measurement":

Hierarchy level	Inputs	Financial instruments	Valuation methodology
Level 1	Quoted markets in active markets for identical assets or liabilities	Corporate bonds	Market value includes accrued interest and change in credit risk and interest rate risk and is therefore different to the reported carrying amounts.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)	Derivative financial instruments	Valuation techniques include forward pricing and swap models using net present value calculation of future cash flows. The model inputs include the foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.
Level 3	Inputs for the asset or liability that are not based on observable	Non-listed equity instruments at fair value through OCI	The fair value of these non-listed equity investments has been

	market data (unobservable market data)		estimated using a discounted cash flow model.
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27. Financial Instruments: Financial Risk Management and Hedging Activities

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework and for establishing the Group's risk management policies.

The Group has exposure to the following risks arising from financial instruments:

- Liquidity risk
- Interest rate risk
- Foreign currency risk
- Credit risk
- Capital risk

Treasury function

NEXT operates a centralised treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the Group's activities. As part of its strategy for the management of these risks, the Group uses financial instruments. In accordance with the Group's treasury policy, financial instruments are not entered into for speculative purposes. Treasury policy is reviewed and approved by the Board and specifies the parameters within which treasury operations must be conducted, including authorised counterparties, instrument types and transaction limits, and principles governing the management of liquidity, interest and foreign currency risks.

The Group's financial instruments also include cash, short term deposits, bank overdrafts, loans, and corporate bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

Liquidity risk

The Group manages its cash and borrowing requirements centrally to minimise net interest expense within risk parameters agreed by the Board, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses. The forecast cash and borrowings profile of the Group is monitored to ensure that adequate headroom remains under committed borrowing facilities.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities, including cash flows in respect of derivatives:

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2019					
Bank loans and overdrafts	377.3	–	–	–	377.3
Trade and other payables	435.2	2.0	–	–	437.2
Corporate bonds	39.3	39.3	407.9	637.2	1,123.7
	851.8	41.3	407.9	637.2	1,938.2
Derivatives: net settled	(6.0)	(5.7)	(13.6)	(11.1)	(36.4)
Derivatives: gross settled					
Cash inflows	(885.5)	–	–	–	(885.5)
Cash outflows	878.6	–	–	–	878.6
Total cash flows	838.9	35.6	394.3	626.1	1,894.9

	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2018					
Bank loans and overdrafts	180.0	–	–	–	180.0

Trade and other payables	382.4	12.8	–	–	395.2
Corporate bonds	39.3	39.3	425.4	659.0	1,163.0
	601.7	52.1	425.4	659.0	1,738.2
Derivatives: net settled	(7.0)	(5.8)	(12.3)	(10.7)	(35.8)
Derivatives: gross settled					
Cash inflows	(1,051.7)	–	–	–	(1,051.7)
Cash outflows	1,114.8	–	–	–	1,114.8
Total cash flows	657.8	46.3	413.1	648.3	1,765.5

At 26 January 2019, the Group had borrowing facilities of £625.0m (2018: £525.0m) in respect of which all conditions precedent have been met. £225.0m is committed until September 2020 and a further £300.0m is committed until November 2022, this is supplemented by a £100.0m bridging facility expiring on the earlier of December 2019 or the issue of a Bond. £255.0m of the November 2022 facility was drawn down at January 2019 (2018: £135.0m).

Interest rate risk

The Group is exposed to fair value interest rate risk on its fixed rate corporate bonds and cash flow interest rate risk on floating rate loans and overdrafts. The forecast cash and borrowings profile of the Group is monitored regularly to assess the mix of fixed and variable rate debt, and the Group uses interest rate derivatives where appropriate to manage its exposure to changes in interest rates and the economic environment.

Interest rates: fair value hedges

The Group has interest rate swap agreements in place as fair value hedges against part of the interest rate risk associated with the corporate bonds. Under the terms of the swaps, which have matching features as the bonds, the Group receives a fixed rate of interest equivalent to the relevant coupon rate, and pays a variable rate interest related to LIBOR. The Group also has interest rate swaps where the Group receives a variable rate of interest related to LIBOR, and pays a fixed rate. Details of the aggregate rates payable are given in Note 18.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swaps match the terms of the fixed rate corporate bonds (i.e. notional amount and maturity). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and the hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and the hedged item.

The fair values of the Group's interest rate swaps, including accrued interest, are as follows:

	2019 £m	2018 £m
Derivatives in designated fair value hedging relationships	32.3	35.7

The fair values of derivatives have been calculated by discounting the expected future cash flows at prevailing interest rates and are based on-market prices at the balance sheet date.

The timing of the nominal amounts of the interest rate swaps are as follows:

	October 2021		October 2026
At 26 January 2019	Fixed to floating	Floating to fixed	Fixed to floating
Nominal amount (£m)	175.0	150.0	250.0
Average price	6 month LIBOR + 1.878	5.133	6 month LIBOR + 1.434

	October 2021		October 2026
At 27 January 2018	Fixed to floating	Floating to fixed	Fixed to floating
Nominal amount (£m)	175.0	150.0	250.0
Average price	6 month LIBOR + 1.878	5.133	6 month LIBOR + 1.434

The impact of the hedging instrument on the Balance Sheet is as follows:

	Notional amount £m	Carrying amount* £m	Line item in the Balance Sheet	Changes in fair value used for measuring ineffectiveness in the period £m
At 26 January 2019				
Interest rate swaps – assets	425.0	41.5	Other financial assets	(6.1)
Interest rate swaps – liabilities	150.0	(9.2)	Other financial liabilities	3.0
At 27 January 2018				
Interest rate swaps – assets	425.0	48.1	Other financial assets	(9.1)
Interest rate swaps – liabilities	150.0	(12.4)	Other financial liabilities	4.1

*The carrying amount of derivatives includes £1.9m of interest accrual (2018: £2.3m).

The impact of the hedged items on the Balance Sheet is as follows:

	Carrying amount £m	Accumulated fair value adjustments £m	Line item in the Balance Sheet	Changes in fair value used for measuring ineffectiveness in the period £m
At 26 January 2019				
Fixed-rate borrowings	275.0	30.2	Corporate bonds	3.3
At 27 January 2018				
Fixed-rate borrowings	275.0	33.5	Corporate bonds	4.9

The ineffectiveness recognised in the Income Statement for the period ended 26 January 2019 was a gain of £0.2m (2018: loss of £0.1m).

27.

Financial Instruments:

Financial Risk Management and Hedging Activities (continued)

Foreign currency risk

The Group's principal foreign currency exposures arise from the purchase of overseas sourced products. Group policy allows for these exposures to be hedged for up to 24 months ahead in order to fix the cost in Sterling. This hedging activity involves the use of spot, forward and option contracts.

The market value of outstanding foreign exchange contracts is reported regularly at Board level, and reviewed in conjunction with percentage cover taken by season and current market conditions in order to assess and manage the Group's ongoing exposure.

The Group does not have a material exposure to currency movements in relation to the translation of overseas investments and consequently does not hedge any such exposure. The Group's net exposure to foreign currencies, taking hedging activities into account, is illustrated by the sensitivity analysis in Note 28.

Foreign currency hedges

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of highly probable forecast transactions (i.e. notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange contracts are identical to the hedged risk components. To test hedge effectiveness,

the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in the fair value of the hedged items attributable to the hedged risks.

In these hedge relationships, the main sources of ineffectiveness are:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indices (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The fair values of foreign exchange derivatives are as follows:

	2019 £m	2018 £m
Derivatives in designated hedging relationships	0.9	(51.8)
Other foreign exchange derivatives not designated in hedging relationships	(0.4)	(1.8)
Total foreign exchange derivatives	0.5	(53.6)

Derivatives designated in hedging relationships at 26 January 2019:

	Maturity			
	1-6 months	6-12 months	More than one year	Total
US Dollars (highly probable forecast purchases)				
Notional amount (in £m)	559.5	284.9	–	844.4
Average GBP: USD contract rate	1.33	1.32	–	1.32
EURO (highly probable forecast purchases)				
Notional amount (in £m)	9.7	–	–	9.7
Average GBP: EURO contract rate	1.12	–	–	1.12
Other (highly probable forecast sales)				
Notional amount (in £m)	47.0	–	–	47.0
Average GBP: Other contract rate	Various currencies*			

*4 currencies are hedged, which are individually not material to the financial statements.

Derivatives designated in hedging relationships at 27 January 2018:

	Maturity			
	1-6 months	6-12 months	More than one year	Total
US Dollars (highly probable forecast purchases)				
Notional amount (in £m)	770.8	278.9	–	1,049.7
Average GBP: USD contract rate	1.32	1.36	–	1.33
EURO (highly probable forecast purchases)				
Notional amount (in £m)	45.2	–	–	45.2
Average GBP: EURO contract rate	1.13	–	–	1.13
Other (highly probable forecast sales)				
Notional amount (in £m)	43.0	–	–	43.0
Average GBP: Other contract rate	Various currencies*			

*6 currencies were hedged, which are individually not material to the financial statements.

The impact of the hedging instruments on the Balance Sheet are as follows:

At 26 January 2019	Notional amount £m	Carrying amount £m	Line item in the Balance Sheet	Changes in fair value used for measuring
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				ineffectiveness in the period £m
Foreign exchange contracts	368.4	9.9	Other financial assets	53.6
Foreign exchange contracts	515.0	(9.4)	Other financial liabilities	20.1
At 27 January 2018				
Foreign exchange contracts	150.6	3.3	Other financial assets	(9.7)
Foreign exchange contracts	987.8	(55.1)	Other financial liabilities	(70.2)

The impact of the hedged items on the Balance sheet is as follows:

	26 January 2019			27 January 2018		
	Changes in fair value used for measuring ineffectiveness in the period £m	Closing cash flow hedge reserve £m	Closing cost of hedging reserve £m	Changes in fair value used for measuring ineffectiveness in the period £m	Closing cash flow hedge reserve £m	Closing cost of hedging reserve £m
Highly probable forecast sales	1.2	1.2	–	3.4	0.6	–
Highly probable forecast stock purchases	72.5	(0.7)	0.5	(83.2)	(52.4)	–

The effect of the cash flow hedge in the Income Statement or other comprehensive income is as follows:

	Ineffectiveness recognised in Income Statement £m	Included in inventories £m	Cost of hedging recognised in OCI £m	Amount reclassified from OCI to the Income Statement £m	Line item in the Income Statement
Year ended 26 January 2019					
Highly probable forecast sales	–	–	–	0.7	Revenue
Highly probable forecast stock purchases	–	(18.4)	0.5	(1.9)	Cost of sales
Year ended 27 January 2018					
Highly probable forecast sales	–	–	–	2.4	Revenue
Highly probable forecast stock purchases	–	8.8	–	(9.9)	Cost of sales

27.

Financial Instruments:

Financial Risk Management and Hedging Activities (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's Online customer receivables. The carrying amount of financial assets represents the maximum residual credit exposure, which was £1,230.5m at the reporting date (2018: £1,138.5m)

These are detailed in Note 12.

The Group's credit risk in relation to customer receivables is influenced mainly by the individual characteristics of each customer. The Board of directors has established a credit policy under which each new credit customer is analysed individually for credit worthiness and subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts using forward looking estimates. The concentration of credit risk is limited due to the Online customer base being large and diverse. At January 2019 there were 2.58m active customers (2018: 2.54m) with an average balance of £533 (2018: £493). The Group's outstanding receivables balances and impairment losses are

detailed in Note 12. The performance of our credit risk policies and the risk of the debtor book are monitored weekly by management. Any trends and deviations from expectations are investigated. Senior management review is carried out monthly.

Customer receivables with value £23.5m at January 2019 were on Reduced Payment Indicator (RPI) plans. An allowance for Expected Credit Losses (ECLs) of £17.9m has been made against these balances. Customers are typically on RPI plans for a period of 12 months during which no interest is charged and repayment rates are reduced. On completion of the RPI plan the customer would be treated as higher risk than the arrears stage and credit score would suggest. Any modification gain or loss recognised is immaterial to the financial statements.

The following table contains an analysis of the credit risk exposure to customer receivables, using Experian's Consumer Indebtedness Index (a measure of customers' affordability) mapped to NEXT's internal credit grade.

	2019 Total £m	2018 Total £m
<i>Credit grade</i>		
Very low risk	612.7	551.5
Low risk	354.5	330.1
Medium risk	246.1	238.3
High risk	104.2	99.4
Gross carrying amount before credit impaired	1,317.5	1,219.3
Credit impaired	79.0	58.0
Gross carrying amount after credit impaired	1,396.5	1,277.3
Loss allowance	(166.0)	(138.8)
Carrying amount	1,230.5	1,138.5

Analysis of customer receivables and other trade receivables, stratified by credit grade, is as follows:

	Current £m	1-30 days past due £m	31-60 days past due £m	61-90 days past due £m	91-120 days past due £m	> 120 days past due £m	Total £m
Customer receivables and other trade receivables							
Very low risk	595.2	13.3	1.2	0.2	0.3	2.5	612.7
Low risk	334.3	12.6	1.8	0.6	0.2	5.0	354.5
Medium risk	219.0	13.4	4.0	1.6	0.9	7.2	246.1
High risk	69.5	9.0	5.2	3.7	3.8	13.0	104.2
Otherwise impaired	–	–	–	–	–	79.0	79.0
Total	1,218.0	48.3	12.2	6.1	5.2	106.7	1,396.5
Loss allowance							
Very low risk	(3.3)	(0.2)	(0.1)	–	–	(1.2)	(4.8)
Low risk	(10.4)	(1.0)	(0.4)	(0.3)	(0.1)	(3.0)	(15.2)
Medium risk	(22.4)	(2.3)	(1.4)	(0.9)	(0.6)	(5.0)	(32.6)
High risk	(17.0)	(3.4)	(2.8)	(2.5)	(2.8)	(11.5)	(40.0)

Otherwise impaired	–	–	–	–	–	(73.4)	(73.4)
Total	(53.1)	(6.9)	(4.7)	(3.7)	(3.5)	(94.1)	(166.0)
Expected loss rate %							
Very low risk	0.5%	1.6%	5.3%	6.6%	6.9%	47.6%	0.8%
Low risk	3.1%	7.7%	21.2%	53.5%	70.1%	61.2%	4.3%
Medium risk	10.2%	17.3%	33.7%	55.4%	64.1%	69.4%	13.2%
High risk	24.5%	38.0%	55.9%	67.9%	73.3%	87.8%	38.4%
Otherwise impaired	–	–	–	–	–	92.9%	92.9%
Total	4.4%	14.3%	38.5%	60.8%	67.0%	88.2%	11.9%

There is no collateral and therefore all amounts that are past due are impaired.

Investments of cash surpluses and derivative contracts are made through banks and companies which must fulfil credit rating and investment criteria approved by the Board. Risk is further mitigated by diversification and limiting counterparty exposure. The Group does not consider there to be any impairment loss in respect of these balances (2018: £nil). The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset.

Capital risk

The capital structure of the Group consists of debt, as analysed in Note 29, and equity attributable to the equity holders of the Parent Company, comprising issued capital, reserves and retained earnings as shown in the Consolidated Statement of Changes in Equity. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not restricted by any externally imposed capital requirements.

As part of its strategy for delivering sustainable returns to shareholders the Group has been returning capital to shareholders by way of share buybacks in addition to dividends (including special dividends). Share buybacks may be transacted through both on-market purchases and off-market contingent contracts.

28. Financial Instruments: Sensitivity Analysis

Interest rate sensitivity analysis

The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 0.5% increase or decrease in interest rates, assuming all other variables were unchanged. The sensitivity rate of 0.5% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis has been prepared using the following assumptions:

- For floating rate assets and liabilities, the amount of the asset or liability outstanding at the balance sheet date is assumed to have been outstanding for the whole year.
- Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.

Positive figures represent an increase in profit or equity.

	Income Statement		Equity	
	2019 £m	2018 £m	2019 £m	2018 £m
Interest rate increase of 0.5%	(2.6)	(2.1)	(2.6)	(2.1)
Interest rate decrease of 0.5%	2.6	2.1	2.6	2.1

Foreign currency sensitivity analysis

The Group's principal foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% increase and decrease in the US Dollar/Sterling and Euro/Sterling exchange rates at the reporting date, assuming all other variables remain unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the fair value reserve in equity and the fair value of the hedging derivatives. For foreign exchange derivatives which are not designated hedges, movements in exchange rates impact the Income Statement.

Positive figures represent an increase in profit or equity.

	Income Statement		Equity	
	2019 £m	2018 £m	2019 £m	2018 £m
<i>Sterling strengthens by 10%</i>				
US Dollar	(0.8)	(1.6)	(49.1)	(46.5)
Euro	–	–	0.6	(2.7)
<i>Sterling weakens by 10%</i>				
US Dollar	(1.1)	1.8	54.7	57.8
Euro	–	–	(0.7)	3.3

Year end exchange rates applied in the above analysis are US Dollar 1.32 (2018: 1.42) and Euro 1.15 (2018: 1.14). Strengthening and weakening of Sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives which do not qualify for hedge accounting.

29. Analysis of Net Debt

	Other non-cash charges				January 2019 £m
	January 2018 £m	Cash flow £m	Foreign exchange £m	Fair value changes £m	
Cash and short term deposits	53.5				156.3
Overdrafts and short term borrowings	(45.0)				(122.3)
Cash and cash equivalents	8.5	24.5	1.0	–	34.0
Unsecured bank loans	(135.0)	(120.0)	–	–	(255.0)
Corporate bonds	(908.5)	–	–	3.3	(905.2)
Fair value hedges of corporate bonds	33.5	–	–	(3.1)	30.4
Total net debt	(1,001.5)	(95.5)	1.0	0.2	(1,095.8)

30. Operating Lease Commitments

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

Future minimum rentals payable (to the nearest break-clause) under non-cancellable operating leases where the Group is the lessee:

Leases expiring:	2019 £m	2018 £m
Within one year	243.4	243.3
In two to five years	711.7	779.6
Over five years	723.6	824.8
	1,678.7	1,847.7

At January 2019, future rentals receivable under non-cancellable sub-leases where the Group is the lessor were £18.6m (2018: £12.7m).

Additional information on the Group's leasing commitments as at 26 January 2019 is detailed in the table below:

	Minimum lease payments £m	Less sub-lease income £m	Net total £m
Year to January 2018 (Actual)	250.0	(9.2)	240.8
Year to January 2019 (Actual)	243.1	(12.3)	230.8
Year to January 2020	243.4	(11.6)	231.8
Year to January 2021	217.1	(4.9)	212.2
Year to January 2022	190.1	(0.7)	189.4
Year to January 2023	166.0	(0.5)	165.5
Year to January 2024	138.5	(0.4)	138.1
Subtotal 5 years to January 2024	955.1	(18.1)	937.0
5 years from February 2024 to January 2029	461.5	(0.5)	461.0
10 years from February 2029 to January 2039	252.2	–	252.2
2039 and beyond	9.9	–	9.9
Total future obligations	1,678.7	(18.6)	1,660.1

31. Related Party Transactions

During the year the Group sold goods and services in the normal course of business to its associate undertaking, Choice Discount Stores Limited, as follows:

	2019 £m	2018 £m
Sales	7.0	7.1
Amounts outstanding at year end	0.5	0.6

During the year the Group entered into the following transactions with its joint venture Retail Restaurants Limited, as follows:

	2019 £m	2018 £m
Loans advanced	0.7	1.5
Recharge of costs and loan interest	0.5	0.6
Amounts outstanding at year end	2.5	–

The loan of £2.5m earns interest at a commercial arms-length rate.

During the year the Group entered into the following transactions with its associate undertaking Custom Gateway Limited, as follows:

	2019 £m	2018 £m
Costs recharged by Custom Gateway	(0.4)	–
Amounts owed at year end	–	–

The Group's other related party transactions were the remuneration of key management personnel (refer to Note 4).

PARENT COMPANY FINANCIAL STATEMENTS

170	Parent Company Balance Sheet
171	Parent Company Statement of Changes in Equity
172	Notes to the Parent Company Financial Statements

PARENT COMPANY BALANCE SHEET

	Notes	26 January 2019 £m	27 January 2018 £m
Fixed assets			
Investments	C2	2,475.7	2,475.7
Other financial assets	C3	41.5	48.1
		2,517.2	2,523.8
Current assets			
Other debtors	C4	405.2	99.5
Cash at bank and in hand		21.6	0.3
		426.8	99.8
Creditors: amounts falling due within one year	C5	(508.6)	(170.0)
Net current liabilities		(81.8)	(70.2)
Total assets less current liabilities		2,435.4	2,453.6
Creditors: amounts falling due after more than one year	C5	(914.4)	(920.9)
Total liabilities		(1,423.0)	(1,090.9)
NET ASSETS		1,521.0	1,532.7
Capital and reserves			
Called up share capital	C6	13.9	14.5
Share premium account		0.9	0.9
Capital redemption reserve		16.0	15.4
ESOT reserve	C6	(271.6)	(231.6)
Other reserves	C6	985.2	985.2
Profit and loss account	C7	776.6	748.3
TOTAL EQUITY		1,521.0	1,532.7

The profit for the year dealt with in the accounts of the Company is £561.0m (2018: £562.0m).

The financial statements were approved by the Board of directors and authorised for issue on 21 March 2019. They were signed on its behalf by:



Lord Wolfson of Aspley Guise
Chief Executive



Amanda James
Group Finance Director

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 28 January 2017	14.7	0.9	15.2	(215.4)	985.2	768.5	1,569.1
Profit for the year	–	–	–	–	–	562.0	562.0
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	562.0	562.0
Share buybacks and commitments (Note C6)	(0.2)	–	0.2	–	–	(106.1)	(106.1)
ESOT share purchases and commitments (Note C6)	–	–	–	(37.0)	–	–	(37.0)
Shares issued by ESOT	–	–	–	20.8	–	(10.5)	10.3
Share option charge	–	–	–	–	–	14.1	14.1
Equity dividends	–	–	–	–	–	(479.7)	(479.7)
At 27 January 2018	14.5	0.9	15.4	(231.6)	985.2	748.3	1,532.7
Profit for the year	–	–	–	–	–	561.0	561.0
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	561.0	561.0
Share buybacks and commitments (Note C6)	(0.6)	–	0.6	–	–	(324.2)	(324.2)
ESOT share purchases and commitments (Note C6)	–	–	–	(61.9)	–	–	(61.9)
Shares issued by ESOT	–	–	–	21.9	–	(6.6)	15.3
Share option charge	–	–	–	–	–	13.8	13.8
Equity dividends	–	–	–	–	–	(215.7)	(215.7)
At 26 January 2019	13.9	0.9	16.0	(271.6)	985.2	776.6	1,521.0

NOTES TO THE PARENT COMPANY

FINANCIAL STATEMENTS

C1. Accounting Policies

The Parent Company financial statements of NEXT plc have been prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101 "Reduced disclosure framework" ("FRS 101"). FRS 101 enables the financial statements of the Parent Company to be prepared in accordance with EU-adopted IFRS but with certain disclosure exemptions. The main areas of reduced disclosure are in respect of equity-settled share-based payments, financial instruments, the Cash Flow Statement, and related party transactions with Group companies. The accounting policies adopted for the Parent Company, NEXT plc, are otherwise consistent with those used for the Group which are set out on pages 120 to 131. The ESOT is consolidated on the basis that the parent has control, thus the assets and liabilities of the ESOT are included in the Balance Sheet and shares held by the ESOT in the Company are presented as a deduction from equity. As permitted by Section 408 of the Companies Act 2006, the Income Statement of the Company is not presented as part of the financial statements.

C2. Investments

The £2,475.7m (2018: £2,475.7m) investment shown in the Balance Sheet of NEXT plc relates to its investment in Next Group plc (formerly Next Group Limited). A full list of the Group's related undertakings is contained in the table below.

Company name	Registered office address	% held by Group companies
AgraTech Limited	Glen House, 200-208 Tottenham Court Road, London, W1T 7PL	100
Belvoir Insurance Company Limited	Maison Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey	100
Brecon Debt Recovery Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Cairns Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Callscan, Inc.	McSwiney, Semple, Hankin-Birke & Wood PC, PO Box 2450, 280 Main Street, New London, NH 03257, USA	100
Choice Discount Stores Limited	14-14A Rectory Road, Hadleigh Benfleet, Essex, SS7 2ND, UK	49
Custom Gateway Limited	c/o Sedulo, 62-66 Deansgate, Manchester M3 2EN	30
Lipsy Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
LLC Next	7 Dolgorukovskaya Street, 127006, Moscow, Russian Federation	100
Next (Asia) Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Next Sourcing Limited Shanghai Office	9F, Building 1, Highstreet loft, No.508 Jiashan Road, Shanghai	100
Next AV s.r.o.	Pribinova 8, 811 09, Bratislava, Slovakia	100
Next Brand Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Distribution Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Financial Services Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Germany GmbH	Landsberger Stra. 155, 80687 München	100
Next Group plc	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Holdings Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Holding Wholesale Private Limited	2nd Floor, Unit No 201, Alpha Hiranandani Gardens, Powai, Mumbai, 400076 India	100
Next Manufacturing (Pvt) Limited	Phase 1, Ring Road, 2,E.P.Z, Katunayake, Sri Lanka	100
Next Manufacturing Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Near East Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Pension Trustees Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next PK s.r.o.	Rohanské nábřeží 671/15, Karlín, Prague 8, 186 00, Czech Republic	100

Company name	Registered office address	% held by Group companies
Next Procurement (Private) Limited	House No.680, Safari Villas, Sector B Bahria Town, Lahore, Pakistan	100
Next Properties Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Retail Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Retail (Ireland) Limited	13-18 City Quay, Dublin 2, D02 ED70, Ireland	100
Next Sourcing Company Limited	2nd Floor S.I. Building, No. 93 Preash Sihanouk Blvd, Sangkat Chaktomuk, Khan Daun Penh, Phnom Penh, Cambodia	100
Next Sourcing (UK) Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Sourcing Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Next Sourcing Limited Domestic and/or Foreign Trade Limited Liability Company	Kemankes Karamustafapasa Mahallesi Tophane iskele Cad. No: 12/5 Beyoglu, Istanbul, Turkey	100
Next Sourcing Services Limited	Giant Business Tower, Level 4 & 5, Plot #3, Sector-3, Dhaka Mymensingh Road, Uttara Commercial Area, Dhaka, 1230 Bangladesh	100
Next Sourcing Services (India) Private Limited	207 Jaina Tower, 1 District Centre, Janakpuri, New Delhi, 110058, India	100
Next Sourcing VM Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Next Sweden AB	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Commercial Trading (Shanghai) Co Limited	Room 301, Building No.4, No.58 Ruixing Lu, Shanghai FTC, PRC, 201306	100
NSL Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Project Norwich Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Perimeter Technology Inc.	McSwiney, Semple, Hankin-Birke & Wood PC, PO Box 2450, 280 Main Street, New London, NH 03257, USA	100
Retail Restaurants Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	50
The Next Directory Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
The Paige Group Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Ventura Group Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Ventura Network Distribution Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100

C3. Other Financial Assets

Other financial assets comprise interest rate derivatives as detailed in Note 13 of the consolidated financial statements, which are carried at their fair value.

C4. Other Debtors

	2019 £m	2018 £m
Amounts due from subsidiary undertakings	400.0	91.1
Other receivables	0.4	–
Prepayments	4.8	8.4
	405.2	99.5

C5. Current and Non-current Creditors

	2019		2018	
	Current £m	Non-current £m	Current £m	Non-current £m

Corporate bonds	–	905.2	–	908.5
Unsecured bank loans	255.0	–	135.0	–
Short term borrowings	37.0	–	15.0	–
Amounts due to subsidiary undertaking	192.6	–	–	–
Corporation tax creditor	1.0	–	1.0	–
Other financial liabilities	–	–	–	12.4
Accruals and other creditors	23.0	9.2	19.0	–
	508.6	914.4	170.0	920.9

Further information on the Company's corporate bonds is given in Note 18. Other financial liabilities include interest rate swaps carried at fair value (refer to Note 17).

C6. Share Capital, ESOT and Other Reserves

Details of the Company's share capital and share buybacks are given in Note 21. ESOT transactions are detailed in Note 24. Other reserves in the Company Balance Sheet of £985.2m (2018: £985.2m) represent the difference between the market price and the nominal value of shares issued as part of the capital reconstruction in 2002 on acquisition of Next Holdings Limited (formerly Next Group plc) which was subject to Section 131 Companies Act 1985 merger relief.

C7. Profit and Loss Account and Distributable Reserves

The Profit and Loss account of the Parent Company does not include any unrealised profits, however the amount available for distribution under the Companies Act 2006 by reference to these accounts is effectively reduced by the ESOT reserve of £271.6m (2018: £231.6m). At January 2019, therefore, the amount available for distribution by reference to these accounts is £505.0m (2018: £516.7m). The Group also has substantial retained profits in its subsidiary companies which are expected to flow up to the Parent Company in due course, such that surplus cash generated can continue to be returned to our external shareholders.

C8. Post Balance Sheet Event

Next Group plc (formerly Next Group Limited) was incorporated as a direct, wholly-owned subsidiary of NEXT plc and as an intermediate holding company between NEXT plc and its other subsidiaries (together, the "Group"), as part of a capital reorganisation of the Group.

This capital reorganisation was to enable the Group to maintain flexibility to use its long established policy of returning free cash flow to shareholders through share buybacks and special dividends (the "Share Buyback Policy") by creating additional headroom in the Group's distributable reserves.

In order for the Group not to be constrained in the use of its Share Buyback Policy, NEXT plc obtained the requisite consent from each of the bond trustees and each of its lending banks to substitute Next Group plc for itself as the primary obligor under all of its existing debt obligations, including each of the Bonds and its bank facilities (the "Substitution"). This Substitution was with effect on and from 31 January 2019 at which time, the Bonds became the liability of the Next Group plc and they were unconditionally and irrevocably guaranteed by NEXT plc.

Shareholder information

175	Half Year and Segment Analysis (unaudited)
176	Five Year History (unaudited)
177	Glossary
179	Notice of Meeting
185	Other Shareholder Information

HALF YEAR AND SEGMENT ANALYSIS (UNAUDITED)

	First half £m	Second half £m	52 weeks to Jan 2019 £m	First half £m	Second half £m	52 weeks to Jan 2018 Restated ² £m
Total sales¹						
NEXT Retail	925.1	1,030.0	1,955.1	993.2	1,129.8	2,123.0
NEXT Online	892.3	1,026.5	1,918.8	764.3	908.1	1,672.4
NEXT Finance	122.0	128.3	250.3	108.5	114.8	223.3
NEXT International Retail	30.9	31.3	62.2	32.6	34.6	67.2
NEXT Sourcing	2.9	4.0	6.9	3.2	3.4	6.6
Lipsy	7.8	7.3	15.1	7.7	8.2	15.9
Property Management	5.2	7.3	12.5	4.5	4.6	9.1
Total	1,986.2	2,234.7	4,220.9	1,914.0	2,203.5	4,117.5
Profit before tax						
NEXT Retail	73.2	139.1	212.3	95.1	173.6	268.7
NEXT Online	163.3	189.3	352.6	134.8	175.0	309.8
NEXT Finance	57.9	63.3	121.2	58.7	53.2	111.9
NEXT International Retail	3.0	3.2	6.2	4.1	3.6	7.7
NEXT Sourcing	14.8	14.8	29.6	16.1	16.9	33.0
Lipsy	3.6	7.4	11.0	2.5	2.4	4.9
Property Management	4.4	2.3	6.7	2.9	0.7	3.6
Total segment profit	320.2	419.4	739.6	314.2	425.4	739.6
Recharge of interest	19.8	20.3	40.1	18.6	22.0	40.6
Other activities	(9.5)	(8.2)	(17.7)	(7.6)	(12.7)	(20.3)
Net finance costs	(19.4)	(19.7)	(39.1)	(15.8)	(18.0)	(33.8)
Profit before tax	311.1	411.8	722.9	309.4	416.7	726.1

FIVE YEAR HISTORY (UNAUDITED)

Year to January	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
<i>Underlying¹ continuing business</i>					
Total sales ²	4,220.9	4,117.5	4,136.8	4,213.7	4,027.8
Statutory revenue	4,167.4	4,090.7 ³	4,097.3	4,176.9	3,999.8
Operating profit – underlying 52 weeks	762.0	759.9	827.7	851.8	812.1
Net finance costs – underlying 52 weeks	(39.1)	(33.8)	(37.5)	(30.5)	(29.9)
Profit before tax – underlying 52 weeks	722.9	726.1	790.2	821.3	782.2
53rd week (pre-tax)	–	–	–	14.8	–
Exceptional items (pre-tax)	–	–	–	–	12.6
Taxation	(132.5)	(134.3)	(154.9)	(169.3)	(159.9)
Profit after taxation	590.4	591.8	635.3	666.8	634.9
Total equity	553.8	482.6	510.5	311.8	321.9
Shares purchased for cancellation	6.3m	2.2m	3.6m	2.2m	2.2m
Dividends per share – ordinary	165.0p	158.0p	158.0p	158.0p	150.0p
– special	–	180.0p	–	240.0p	150.0p
Basic Earnings Per Share					
Underlying (52 weeks)	435.3p	416.7p	441.3p	442.5p	419.8p
Total	435.3p	416.7p	441.3p	450.5p	428.3p

GLOSSARY

Alternative performance measures

The directors use alternative performance measures (APMs) as they believe these measures provide additional useful information on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

Average active customers

Those customers who have purchased using their Online account, or received a standard account statement in the last 20 weeks. Customers can be either Online credit or cash customers.

Average debtor balance

The average amount of money owed by all nextpay and next3step customers less any provision for bad debt. This represents the total balances we expect to recover averaged across the relevant period.

Bad debt charge

The charge taken in relation to the performance of our customer debtor book. This consists predominantly of a charge on the debt owed by customers who have defaulted and the cost of providing for future defaults.

Bought-in gross margin

Difference between the cost of stock and initial selling price, expressed as a percentage of achieved total VAT exclusive selling prices. Bought-in gross margin is a measure of the profit made on the sale of stock at full price.

Branch profitability

Retail store total sales less cost of sales, payroll, controllable costs, occupancy costs and depreciation, and before allocation of central overheads. Expressed as a percentage of VAT inclusive sales. Net branch profit is a measure of the profitability on a store by store level.

Cost of funding

Interest is charged to the NEXT Finance business in respect of funding costs for the Online debtor balance. It is calculated by applying the average Group interest rate (i.e. the external borrowing rate of the NEXT Group divided by the average NEXT Group borrowing) to the average debtor balance.

Credit sales

VAT exclusive sales from Online credit customers who have purchased using their Online account, inclusive of any interest income charges and delivery charges, and after deducting any applicable promotional discounts.

Divisional operating profit

Divisional profit before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 "*Share-based payment*" and unrealised foreign exchange gains and losses on derivatives which do not qualify for hedge accounting. Refer to Note 1 of the financial statements.

Earnings Per Share (EPS)

The level of growth in EPS provides a suitable measure of the financial health of the Group and its ability to deliver returns to shareholders. Refer to Note 8 of the financial statements.

Full price sales

Total sales excluding items sold in our mid-season, end-of-season or Black Friday Sale events and our Clearance operations and includes interest income relating to those sales. Full price sales are a direct indicator of the performance and profitability of the business.

Interest income

The gross interest billed to nextpay and next3step customers, before any deduction for unpaid interest on bad debt.

Like-for-like sales

Change in sales from Retail stores which have been open for at least one full year. This metric enables the performance of the Retail stores to be measured on a consistent year-on-year basis and is a common term used in the retail industry.

Net debt

Comprises cash and cash equivalents, bank loans, corporate bonds, fair value hedges of corporate bonds and finance leases. Refer to Note 29 of the financial statements. Net debt is a measure of the Group's indebtedness.

Net operating margin

Profit after deducting markdowns and all direct and indirect trading costs, expressed as a percentage of achieved total sales. Net margin measures whether profitability is changing at a higher or lower rate relative to revenue.

Net profit (NEXT Finance)

The profit, including interest income and the bad debt charge, and after the allocation of central overheads and the cost of funding.

Return on Capital Employed – ROCE (NEXT Finance)

Registered in England & Wales - Company Number: 04412362

The NEXT Finance net profit (after the interest charge relating to the cost of funding), divided by the average debtor balance.

Surplus cash

Cash flow after capital expenditure, interest, tax and ordinary dividends but before financing any increase in Online debtors.

Total sales

VAT exclusive full price and markdown sales including the full value of commission based sales and interest income (as described and reconciled in Note 1 of the financial statements). Total sales is a direct indicator of performance.

Underlying like-for-like sales

Like-for-like sales, excluding stores impacted by new openings. This is a measure of the annual performance of stores taking into account the impact of new store openings on existing stores.

Underlying profit and Earnings Per Share

Underlying profit and Earnings Per Share measures exclude exceptional items and are shown on a consistent 52 week basis, where relevant. Allows for more consistent comparison, excluding one-off items.

Other definitions

Capital expenditure ("Capex")

The additions to property, plant and equipment.

Exceptional items

Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's underlying performance measures by virtue of their size and nature in order to better reflect management's view of the performance of the Group.

FTE

FTE refers to full time equivalent number of employees.

Internal rate of return (IRR)

Internal rate of return is a discount rate that makes the net present value of all cash flows from a particular project equal to zero.

Lease term

Refers to the period from the start of the lease agreement to the earlier of the lease agreement end date or, if applicable, the date of the earliest break-clause.

Like-for-like stores

Retail stores which have traded for at least one full year.

Mainline store

Non-clearance store. Clearance stores sell stock left over from the NEXT end-of-season Sale activity.

Markdown sales

VAT exclusive sales of stock items in our mid-season, end-of-season or Black Friday Sale events and our Clearance operations.

Online active customers

Customers who have placed an Online order or received a standard account statement in the last 20 weeks.

Online cash customers

Online customers who pay at the time of ordering online or via one of our Call Centres.

Online credit customers

Customers who order using an Online credit account (nextpay or next3step account).

Retail selling space

Selling space is defined as the trading floor area of a store which excludes stockroom and administration areas.

LTIP

Long Term Incentive Plan (refer to page 155).

SMP

Share Matching Plan (refer to page 155).

Total Shareholder Returns (TSR)

TSR has been calculated by reference to the growth in share price combined with the notional investment of gross dividends on ex-dividend dates to create a dividend fraction.

NOTICE OF MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your NEXT plc ("NEXT" and/or the "Company") shares, please send this document, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

Notice is given that the Annual General Meeting (AGM) of NEXT will be held at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW on Thursday 16 May 2019 at 9.30 am at which the following resolutions will be proposed, resolutions 1 to 14 as Ordinary Resolutions and 15 to 19 as Special Resolutions.

Further information on these resolutions can be found in the Directors' Report on pages 68 to 70 and in the Appendix to this Notice. Biographies of the directors are shown on pages 66 and 67 of the Annual Report. Subsequent to the signing of the Annual Report, Jonathan Bewes was appointed as a non-executive director of The Sage Group plc with effect from 1 April 2019.

1

To receive and adopt the accounts and reports of the directors and auditor for the year ended 26 January 2019.

2 To approve the Directors' Remuneration Report.

3

To declare a final dividend of 110p per ordinary share.

To elect the following director appointed by the directors since the last AGM who is seeking election in accordance with the Company's Articles of Association:

4 Tristia Harrison.

To re-elect the following directors who are seeking annual re-election in accordance with the UK Corporate Governance Code:

5 Jonathan Bewes.

6 Amanda James.

7 Richard Papp.

8 Michael Roney.

9 Francis Salway.

10 Jane Shields.

11 Dame Dianne Thompson.

12 Lord Wolfson.

13

To re-appoint PricewaterhouseCoopers LLP as auditor of the Company, to hold office until the conclusion of the 2020 AGM of the Company and to authorise the directors to set their remuneration.

14 Directors' authority to allot shares

That:

- a. the directors be authorised to allot equity securities (as defined in Section 560 of the Companies Act 2006 (the "2006 Act")) in the Company:
 - i. up to a maximum nominal amount of £4,500,000 (as reduced by any equity securities allotted under paragraph (a)(ii) below); and
 - ii. up to a maximum nominal amount of £9,100,000 (as reduced by any equity securities allotted under paragraph (a)(i) above) in connection with an offer by way of a rights issue;
- b. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution, or, if earlier, at the close of business on 16 August 2020; and
- c. all previous unutilised authorities under Section 551 of the 2006 Act shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 551(7) of the 2006 Act by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted on or after that date).

15 General disapplication of pre-emption rights

That, subject to resolution 14 being passed:

- a. the directors be given power to allot equity securities for cash;
- b. the power under paragraph (a) above (other than in connection with a rights issue) shall be limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £687,000 representing 5% of the issued ordinary share capital;
- c. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 16 August 2020; and
- d. all previous unutilised authorities under Sections 570 and 573 of the 2006 Act shall cease to have effect (save to the extent that they are exercisable by reason of any offer or agreement made prior to the date of this new resolution which would or might require shares to be allotted on or after that date).

16 Additional disapplication of pre-emption rights

That, subject to resolutions 14 and 15 being passed:

- a. the directors be given the power to allot additional equity securities for cash;
- b. the power under paragraph (a) above (other than in connection with a rights issue) shall be:
 - i. limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £687,000 representing 5% of the issued ordinary share capital; and
 - ii. used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-emption Rights most recently published by the Pre-Emption Group prior to the date of this notice;
- c. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 16 August 2020; and
- d. other than in respect of authorities granted pursuant to resolution 15, all previous unutilised authorities under Sections 570 and 573 of the 2006 Act shall cease to have effect (save to the extent that they are exercisable by reason of any offer or agreement made prior to the date of this new resolution which would or might require shares to be allotted on or after that date).

17 On-market purchase of own shares

That in accordance with the 2006 Act, the Company be granted general and unconditional authority to make market purchases (as defined in Section 693 of the 2006 Act) of any of its own ordinary shares on such terms and in such manner as the directors may determine provided that:

- a. the authority conferred by this resolution shall be limited to the lesser of 20,637,000 ordinary shares of 10p each and no more than 14.99% of the issued ordinary shares outstanding at the date of the AGM, such limit to be reduced by the number of shares purchased pursuant to the authority granted at resolution 18 below;
- b. the minimum price which may be paid for ordinary shares (exclusive of expenses) is 10p per ordinary share;
- c. the maximum price which may be paid for each ordinary share (exclusive of expenses) is an amount not more than the higher of: (i) 105% of the average of the middle market price of the ordinary shares of the Company according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share of the Company and the highest current independent bid for an ordinary share of the Company as derived from the London Stock Exchange Trading System;
- d. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business 16 August 2020;
- e. the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract; and
- f. all existing authorities for the Company to make market purchases of its own ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

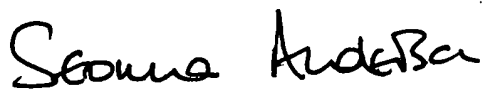
18 Off-market purchases of own shares

That, in accordance with Section 694 of the 2006 Act, the proposed programme agreements to be entered into between the Company and any of Goldman Sachs International, UBS AG London Branch, Deutsche Bank AG, HSBC Bank plc and Barclays Bank plc (in the form produced to this meeting and initialled by the Chairman for the purpose of identification) (the "Programme Agreements") be and are approved and the Company be and is authorised to enter into the Programme Agreements and all and any forward trades which may be effected or made from time to time for the off-market purchase by the Company of its ordinary shares of 10 pence each under or pursuant to the Programme Agreements, as more fully described in the appendix on page 181 of this Notice. The authority conferred by this special resolution shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at close of business on 16 August 2020 (except in relation to the purchase of ordinary shares under any forward trade effected or made before the expiry of such authority and which might be completed wholly or partly after such expiry).

19 Notice of general meetings

That a general meeting (other than an AGM) may be called on not less than 14 clear days' notice.

By order of the Board

A handwritten signature in black ink, appearing to read 'Seonna Anderson', written in a cursive style.

Seonna Anderson

Company Secretary

Registered Office: Desford Road, Enderby, Leicester, LE19 4AT

11 April 2019

APPENDIX

Further information on resolution 18: Off-market purchases of own shares

As noted in the Directors' Report on page 69, approval will be sought from shareholders to renew the Company's authority to make off-market purchases of its shares.

Special resolution 17 passed at the Company's 2018 AGM, granted authority to the Company to make on-market purchases of a maximum number of 21,521,000 shares and expires on the earlier of the date of the 2019 AGM or 17 August 2019. At the same AGM, authority was granted to the Company to make off-market purchases of shares for cancellation under contingent purchase contracts to be entered into with any of Goldman Sachs International, UBS AG, Deutsche Bank AG, HSBC Bank plc and Barclays Bank plc (the "Bank(s)"). This authority was limited to a maximum of 3 million shares and expires on the earlier of the date of the 2019 AGM or 17 August 2019. Pursuant to those authorities and up to 20 March 2019, the Company has bought back 3,877,449 shares for cancellation, representing 2.7% of its issued share capital as at the date of the 2018 AGM, at a total cost of £205.4m. No shares were bought back under contingent purchase contracts.

Sections 693 and 694 of the 2006 Act provide that the terms of any contract to make off-market purchases or contingent purchases of its shares must be approved by shareholders. Furthermore, the Market Abuse Regulation ("MAR") limits the Company's ability to purchase its shares at a time when it is in receipt of unpublished price sensitive information about the Company ("Inside Information"). The Company also typically does not purchase its shares during the period commencing 30 days before the announcement of its interim results and full year results in September and March (respectively) each year (a "Closed Period"), as defined in Article 19(11) of MAR. In the absence of a Programme Agreement (as defined below), these MAR restrictions and Closed Periods inevitably reduce the number of shares the Company is able to purchase.

In order to achieve maximum flexibility in its share purchase activities, the Company is permitted outside of Closed Periods to enter into irrevocable and non-discretionary programmes and/or contingent forward purchase contracts which would allow it to buy shares during Closed Periods. As in previous years, the Company intends to enter into new agreements (the "Programme Agreements"), with each of the Banks, under which the Company may (but is not obliged to) enter into contingent forward trades (Contingent Forward Trades or CFT) from time to time.

The terms of a CFT will be agreed between the Company and the Bank before it is entered into. The Company is committed to purchase shares under a CFT on the day it is executed subject to the terms of the Programme Agreement. The terms of each CFT will provide for the Company to purchase a fixed number of shares each week over a period of between 20 to 30 weeks. The maximum number of shares that can be purchased under each CFT is limited to 30,000 shares per week.

Whether or not the Company purchases shares in a particular week during the term of a CFT is dependent upon the Company's share price either not rising to, or above, a level (the "Upper Suspension Level") or, if applicable, falling to or below a level (the "Lower Suspension Level" and together with the Upper Suspension Level, the "Suspension Levels"). The Suspension Levels and duration are determined by the Company and are set at the time the CFT is entered into. The Upper Suspension Level must be set between 104% and 110% of the Company's share price at the start of the CFT. If the Company chooses to incorporate a Lower Suspension Level, it must be set between 80% and 95% of the price at the start of the CFT. The inclusion of a Lower Suspension Level would help mitigate the Company's financial commitment under a CFT if its share price was to fall below this level after the CFT had been executed. If the Lower Suspension Level is not included, the level of discount to the market share price would be higher.

The price at which the Company may purchase shares during the term of a CFT (the "Forward Price") is fixed at the start of the CFT. The Forward Price is determined by the Bank with reference to the volume weighted average price for shares traded in NEXT on the day the CFT is entered into. The Forward Price is subject to a maximum of 99% of the share price at the start of the contract and a minimum of 10 pence (the par value of an ordinary share). The minimum and maximum period between entering a CFT and shares being purchased is 5 days and 30 weeks respectively. The Company will announce the details of each CFT on the day it is entered into and any subsequent termination via the Financial Conduct Authority's Regulatory News Service. This structure would allow the Company to purchase shares at a discount to the market price (as at the time each CFT commences), for so long as the Suspension Levels are not reached, without breaching the Listing Rules. If any Suspension Level is reached, the CFT terminates automatically at that time and no further shares would be purchased under that contract.

Under Sections 693 and 694 of the 2006 Act, the Programme Agreements and Contingent Forward Trades are contingent purchase contracts to purchase shares by the Company off-market. Accordingly, resolution 18, which will be proposed as a special resolution, seeks shareholder approval of the terms of the Programme Agreements to be entered into between the Company and each of the Banks. The Programme Agreements will have a duration of the shorter of the period to the date of the next AGM to be held in 2019 and 16 August 2020 and will incorporate the terms of an ISDA Master Agreement and Schedule. The Programme Agreements will be entered into and each CFT will be effected outside a Closed Period but shares may be purchased by the Company during a Closed Period.

Should shareholder approval be granted, any number of CFT may be effected with the Banks at any time, provided that:

- the total maximum number of shares which the Company is permitted to purchase pursuant to this authority would be 3 million, representing circa 2.2% of its issued share capital at 20 March 2019;
- the total cost of shares that the Company would be permitted to purchase pursuant to this authority may not exceed £200m (including costs);
- the Forward Price may not exceed 105 percent of the average of the middle market price of a share according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the share is purchased;
- the Forward Price will be no more than 99% of the share price at the time the CFT was effected;
- the minimum price that can be paid for any share is 10p; and
- only one CFT will be entered into on any particular day.

Shares purchased under the Programme Agreements will reduce the number of shares that the Company may purchase under any authority granted at the AGM on 16 May 2019 for on-market purchases. No shares will be purchased under that authority on the same day that a CFT is entered into. The authority granted to the Company under this resolution will expire at the conclusion of the 2020 AGM or on 16 August 2020, whichever is the earlier,

Registered in England & Wales - Company Number: 04412362

unless such authority is renewed prior to that time (except in relation to the purchase of shares under any CFI effected before the expiry of such authority and which might be completed wholly or partly after such expiry). The purchase of shares under the Programme Agreements will always be physically settled by delivery of shares to the Company (except in the case of certain events of default or termination events).

A copy of each of the Programme Agreements will be available at the AGM on 16 May 2019. Copies will also be available for inspection at the Company's registered office at Desford Road, Enderby, Leicestershire LE19 4AT and at the offices of Slaughter and May at One Bunhill Row, London, EC1Y 8YJ during usual business hours until the date of the AGM.

The Company has no warrants in issue in relation to its shares and no options to subscribe for its shares outstanding. Exercise of all outstanding employee share options and share awards will be satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 24 of the financial statements).

MEETING FORMALITIES AND VOTING

Attending the Annual General Meeting

To be entitled to attend, speak and vote at the AGM and for the purposes of determining the number of votes they may cast, shareholders must be registered in the register of members of the Company as at 6.30 pm on 14 May 2019 or if the meeting is adjourned at 6.30 pm on the day which is two working days before the adjourned meeting.

The total number of the Company's issued share capital on 20 March 2019, which is the latest practicable date before the publication of this Notice, is 137,582,327 ordinary shares. All of the ordinary shares carry one vote each and there are no shares held in treasury.

In line with best practice, all resolutions will be decided by way of a poll. This means that a shareholder has one vote for every share held. The directors believe a poll is most representative of shareholders' voting intentions because shareholders' votes are counted according to the number of shares held, and the proxy vote is added to the votes of shareholders present so that all votes are taken into account. The procedures for the poll votes will be explained at the AGM.

In respect of resolution 18 on off-market share purchase contracts, the 2006 Act provides that this resolution will not be effective if any member of the Company holding shares to which it relates (i.e. shares which may be purchased pursuant to the Programme Agreements) voted for the resolution and the resolution would not have been passed if they had not done so. Therefore, NEXT intends to disregard any poll votes which are cast in favour of resolution 18 attaching to 3 million shares (being the total maximum number of shares which the Company is permitted to purchase pursuant to the Programme Agreements) from both the total number of votes cast in favour of this resolution and the total number of votes cast.

Voting and proxies

Whether or not you intend to attend the AGM in person, please complete and return the form of proxy to Equiniti, to arrive not later than 9.30 am on 14 May 2019 (or 48 hours before any adjourned meeting). If you complete and return the proxy form you can still attend and vote at the AGM if you wish.

A shareholder who is entitled to attend and vote at the AGM may appoint one or more proxies to attend, speak and vote instead of him/her, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not also be a shareholder of the Company and may vote on any other business which may properly come before the meeting.

The statements of the rights of members in relation to the appointment of proxies in the above paragraph and in the paragraphs headed "Electronic voting" and "CREST voting facility" below can only be exercised by registered members of the Company and do not apply to a Nominated Person. Nominated persons should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder (i.e. the first named joint holder recorded in the Company's share register) will be accepted.

A member who appoints as their proxy someone other than the Chairman, should ensure that the proxy attends the meeting and is aware of the voting intention of the member. If no voting instruction is given, the proxy has discretion on whether and how to vote.

A person to whom this Notice is sent who is a person nominated under Section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Electronic voting

As an alternative to completing and returning a form of proxy, you may submit your proxy electronically by accessing our registrar's website sharevote.co.uk. You will require your unique Voting ID, Task ID and Shareholder Reference Number as printed on the proxy card. The use by members of the electronic proxy appointment service will be governed by the terms and conditions of use which appear on the website. Electronic proxies must be completed and lodged in accordance with the instructions on the website by no later than 9.30 am on 14 May 2019.

CREST voting facility

Those shareholders who hold shares through CREST may choose to appoint a proxy or proxies using CREST for the AGM to be held on 16 May 2019 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual is available at euroclear.com.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Right to ask questions

Any shareholder attending the meeting has the right to ask questions. The Company must answer any such question relating to the business being dealt with at the AGM but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (ii) the answer has already been given on a website in the form of an answer to a question, or (iii) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

Documents available for inspection

Copies of the following documents will be available for inspection at the Company's registered office during usual business hours and for 15 minutes prior to and for the duration of the AGM:

- a copy of each executive director's contract of service;
- a copy of each non-executive director's letter of appointment; and
- the Programme Agreements pursuant to resolution 18.

Copies will also be available for inspection at the offices of Slaughter and May at One Bunhill Row, London, EC1Y 8YV during usual business hours until the close of the AGM.

Company website

A full copy of the Annual Report (which includes this Notice), together with those for prior years, and other information required by Section 311A of the 2006 Act can be found on the NEXT plc website at nextplc.co.uk.

Under Section 527 of the 2006 Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the members requesting such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act, and it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the 2006 Act to publish on its website.

You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.

OTHER SHAREHOLDER INFORMATION

Registered office

Desford Road, Enderby, Leicester, LE19 4AT

Registered in England and Wales, no. 4412362

Payment of dividend

The recommended final dividend, if approved, will be paid on 1 August 2019 to holders of ordinary shares registered at close of business on 5 July 2019. The ordinary shares will trade ex-dividend from 4 July 2019.

Annual General Meeting

The AGM will be held at 9.30 am on Thursday 16 May 2019 at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW. The Notice of the Meeting on pages 179 to 184 sets out business to be transacted. Full access is available to the venue for those with special requirements.

Share price data

(Stock Exchange Code: NXT.L)

	2019	2018
Share price at financial year end	£47.77	£52.18
Market capitalisation	£6,621m	£7,560m
Share price movement during year:		
High mid-market quotation	£62.02	£53.20
Low mid-market quotation	£39.91	£36.17

Discount voucher

The Company offers a discount voucher to any first named, registered shareholder holding a minimum number of 100 ordinary shares as at 1 April each year. The shareholder discount voucher entitles the recipient or their immediate family to a 25% discount against most purchases at any one time of full price NEXT merchandise in NEXT Retail stores. There is no limit on the value of goods that can be purchased at that time. The voucher expires on 31 October of the year in which it was issued. It cannot be used in conjunction with any other discount voucher or offer, nor can it be used for the purchase of gift cards, Sale merchandise, electrical goods, non-NEXT branded goods or purchases from NEXT Online (unless ordered through one of our Retail stores). Shareholders holding shares in nominee or ISA accounts are also eligible, but must request the voucher through their nominee or ISA account manager who should contact the Company Secretary's office (companysecretariat@next.co.uk).

Registrars and transfer office

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Telephone +44 (0) 371 384 2164. Calls to this number are charged at 8p per minute plus network extras. Overseas Shareholder Helpline Number +44 (0) 121 415 7047. Lines are open 8.30 am to 5.30 pm Monday to Friday.

Shareholder enquiries

The Company's share register is maintained by Equiniti. Please contact them online at shareview.co.uk or using the contact details above if you have any enquiries about your NEXT shareholding including the following matters:

- change of name and address;
- loss of share certificate, dividend warrant or dividend confirmation;
- if you receive duplicate sets of Company mailings as a result of an inconsistency in name or address and wish, if appropriate, to combine accounts.

The Shareview Portfolio service from Equiniti gives you more online information about your NEXT shares and other investments. For direct access to information held for you on the share register, including recent balance movements and a daily valuation of investments held in your portfolio, visit shareview.co.uk.

For shareholders with disabilities Equiniti provides the following:

- if requested future communications produced by them will be sent in the appropriate format;
- telephone number +44 (0) 371 384 2255 for shareholders with hearing difficulties;

Registered in England & Wales - Company Number: 04412362

- hearing loop facilities in their buildings for use by visiting shareholders.

CREST

The Company's ordinary shares are available for electronic settlement.

Payments of dividends to mandated accounts

Shareholders who do not at present have their dividends paid directly into a bank or building society may wish to do so. A mandate form is attached to your dividend confirmation or is available to download from the NEXT website at nextplc.co.uk or from Equiniti, telephone +44 (0) 371 384 2164.

Forward looking statements

This Report and Accounts contains "forward looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to those risks described in "Risks & Uncertainties" on pages 54 to 58; failure by NEXT to predict accurately customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of NEXT's Brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; insufficient consumer interest in NEXT Online; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial or equity markets. These forward looking statements do not amount to any representation that they will be achieved as they involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.