

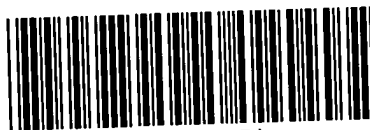
NEXT Retail Limited

Reports and Financial Statements

27 January 2018

Registered No: 4521150

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Registered in England & Wales

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Strategic Report

The directors present their Annual Report and audited financial statements for the 52 week period ended 27 January 2018.

Results

The profit for the 52 week period ended 27 January 2018 after taxation, amounted to £434.5m (52 week period ended 28 January 2017: £504.9m).

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

Business strategies and objectives

The Company's principal objective is to provide exciting, beautifully designed, wonderful quality clothing and homeware which meets and exceeds the aspirations of our customers, at prices that are within the reach of most people. The directors aim to achieve this objective by implementing the following strategies:

- Improving and developing our product ranges, success in which is measured by sales performance.
- 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.
- Increasing the number of profitable NEXT Online cash and credit 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.
- Managing gross and net margins through efficient product sourcing, stock management and cost control.
- Focusing on customer experience and satisfaction levels in both Retail stores and Online.
- Maintaining the Group's financial strength through an efficient balance sheet and secure financing structure.

Strategic Report (continued)

	January 2018 £m	January 2017 £m	Annual Change
TOTAL SALES excluding VAT* (52 v 52 weeks)			
NEXT Retail	2,123.0	2,304.6	-7.9%
NEXT Online	1,887.4	1,728.5	+9.2%
NEXT International Retail	58.1	53.9	+7.8%
Total NEXT Brand sales excluding VAT	<u>4,068.5</u>	<u>4,087.0</u>	-0.5%
Statutory turnover (52 v 52 weeks)	3,950.3	4,007.0	-1.4%

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

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

The total sales analysis above includes the following:

1. £76.1m (2017: £47.0m) Lipsy sales made through the NEXT website are included in NEXT Online.
2. £14.6m (2017: £16.5m) Lipsy sales made in NEXT retail stores are included in NEXT Retail.

Strategic Report (continued)

Review of the period

As anticipated, the 52 week period to January 2018 was a challenging year and the Company's performance is described below.

Note on Cost Allocation

With Retail profitability increasingly under the microscope it has become more important to correctly allocate costs between Retail and Online. Our analysis of cost recharges between the two businesses identified that there was a significant shortfall in the amount that Retail was recharging for the cost of fulfilling Online orders in store. The under charge was £14.6m.

Prior year operating profit for Retail and Online has been restated throughout this report for comparison; there is no change to total Group operating profit. The table below sets out the change made between the two businesses and the corresponding effect on their 2016/17 net operating margins.

Activity	Explanation	Value £m	Effect on Retail margin	Effect on Online margin
Handling Online orders and returns in Retail stores.	Cost per parcel increased from 57p to 89p to reflect total staffing requirements including management costs.	14.6	+ 0.6%	- 0.9%

NEXT RETAIL

Total Retail sales were reduced by -7.9% on last year, full price sales¹ were down -7.0%. Net new space contributed +2.0% to total sales growth. Retail profit of £268.7m was -20.7% (on a restated basis) lower than last year, representing a -2.0% decrease in net margin.

Retail sales

	2018	2017
Total like-for-like sales	-9.8%	-5.4%
Full price like-for-like sales	-9.1%	-6.9%
Total sales (excl. VAT)	£2,123.0m	£2,304.6m

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

¹ Full price sales are total sales, excluding items sold in our mid-season Sale events and our Clearance operations. They include interest income relating to those sales.

Strategic Report (continued)

Retail space

Net trading space increased by 51,000 square feet over the year, taking our portfolio to 8.0 million, as shown below.

	2018	2017	Annual change
Store numbers	528	538	-1.9%
Square feet (000's)	8,029	7,978	+0.6%

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

Looking at the new projects in the year ahead, we estimate that we will add around 100,000 square feet of net trading space in 2018/19. This estimate is only a rough guide at this stage and much will depend on the lease terms we are able to achieve and required planning permissions.

Portfolio shape and profitability

Store numbers decreased from last year by 2%. There were 17 store closures, three were as a result of consolidating two stores into one location. The remaining 14 stores made an average 12% profit (before central overheads). Excluding the one store which was subject to a compulsory purchase, the average profitability of the stores was 9%. We would not necessarily actively seek to close stores making a 9% margin however we would rarely agree to a new lease at these levels of profit.

As a result of the active management of our store portfolio, the vast majority of our stores make a healthy profit, with 94% of our space delivering a net branch profit² of more than 10%. The table below sets out the percentage of our turnover within stores of different levels of profitability as at January 2018.

Mainline store profitability ³	Percentage of turnover
>20%	59%
>15%	85%
>10%	94%
>5%	97%
>0%	98.7%

Returns on capital and profitability

Profitability of stores opened or extended in the last 12 months is forecast to average 21% of VAT inclusive sales and payback on the net capital invested is expected to be 24.8 months. The new store portfolio marginally missed its sales target, largely because many of the targets were set some time ago at the point we negotiated terms for these properties; a time when prospects for retail stores were more benign. Payback is forecast to be slightly higher than our 24 month goal.

² Net branch profit is defined as profit before central overheads and expressed as percentage of VAT inclusive sales.

³ Mainline stores are non-clearance stores. Clearance stores sell stock left over from the NEXT end-of-season Sale activity.

Strategic Report (continued)

Retail profit analysis

Full year operating margin has declined by -2.6% to 12.7%. The table below sets out significant margin movements by the major heads of costs.

Net operating margin on total sales last year - restated		15.3%
Bought-in gross margin	Improved underlying bought-in gross margin has added +0.1% to margin.	+0.1%
Markdown	Stock for Sale was down -9% with markdown sales down -15.5%. Reduced clearance rates lowered margin by -0.3%.	- 0.3%
Stock loss	The Sterling value of branch stock loss was in line with last year, but as a result of falling sales, was a larger percentage of turnover.	- 0.1%
Store payroll	Productivity initiatives more than offset increases in rates of pay.	+0.2%
Store occupancy	Falling sales increased fixed costs as a percentage of sales. Underlying rental inflation was negligible at +0.4%.	- 1.7%
Warehouse & distribution	Falling sales increased fixed costs as a percentage of sales; this has been partially offset by cost saving initiatives in our distribution network.	- 0.2%
Central overheads	Central overheads increased as a percentage of sales.	- 0.6%
Net operating margin on total sales this year		12.7%

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

NEXT ONLINE

Total Online sales grew by +9.2% to £1,887.4m and restated profits were up +7.4% on last year to £461.2m.

Online sales

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

Full price sales growth	£m	% var	First half	Second half
NEXT Brand UK	+16	+1.6%	- 4.1%	+6.9%
LABEL UK	+92	+42.7%	+40.6%	+44.8%
Total UK	+108	+8.6%	+3.1%	+13.6%
Overseas	+59	+25.5%	+30.7%	+20.8%
Total	+167	+11.2%	+7.4%	+14.7%

Strategic Report (continued)

Online customer base

Average active customers increased year on year by +4% to 4.9 million. The table below sets out the growth in our customer base.

	2018	2017	Annual change
Average active customers			
UK credit account	2.49m	2.50m	+0%
UK cash	1.50m	1.38m	+8%
Total UK	3.99m	3.88m	+3%
Overseas	0.94m	0.85m	+10%
Total	4.93m	4.73m	+4%

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

Online credit business

Two years ago our credit customer base was in decline. We closed the year ending January 2016 with credit customers down -5.6%. Since then, we have re-launched our credit account as nextpay and actively promoted it to our 'cash' customers. As at January 2018, credit customers were up +0.6% on the prior year.

We are pleased with progress made to date and feel more confident about maintaining stability in our credit customer base going forward.

Online overseas

Online Overseas continues to trade well. Full price sales for the year were up +26% and up +10% on a constant currency basis. Margin also improved to 22%, mainly as a result of efficiencies achieved through our overseas distribution hubs. Our German hub now services 14 countries in Continental Europe.

LABEL

LABEL has had a strong year with full price sales up +43% and total sales (including markdown sales) up +40%. Growth has been driven predominantly through existing partner brands where we have successfully increased our breadth of offer and improved stock availability.

LABEL sales are achieved on both a wholesale and commission basis; sales by these channels are set out in the table below.

Total sales £m	2018	2017	
Wholesale	151	125	+21%
Commission	139	81	+72%
Total LABEL sales	290	206	+40%

Nearly half of our third-party branded business is now sold on a commission basis (for the purposes of this section we include Lipsy sales as a third-party branded business). Although we make lower net margins on the commission model, we encourage brand partners to adopt it because we believe that, in the long run, it will generate higher sales growth, a belief reinforced by our sales performance.

Our aim is for LABEL to be the most profitable route to market for our commission brand partners and for the relationship between our businesses to be based on mutual trust and transparency.

Strategic Report (continued)

Sales and Profit

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

£m	2018	2017
Total sales	290	206
Operating profit	50	34
Net margin	17%	16%

Online profit analysis

Full year operating margin has reduced by 0.4% to +24.4%, the reasons for which are detailed below.

Net operating margin on total sales last year – restated		24.8%
Bought-in gross margin	Improved underlying NEXT bought-in gross margin added +0.2%. Overseas margin has benefited from favourable exchange rates, adding +0.2% to margin. This has been offset by an increase in third-party branded sales, which reduced profitability by -1.0%.	- 0.6%
Markdown	Stock for Sale was up +5.2% with markdown sales down -0.7%. Reduced clearance rates lowered margin by -0.2%.	- 0.2%
Interest income	Credit sales have not grown as fast as total sales, reducing margin by -0.2%. In addition, interest free promotions have further reduced margin by -0.1%.	- 0.3%
Warehouse & distribution	Under normal circumstances we would expect to gain some leverage over warehouse fixed costs. However growth in overseas sales increased our distribution costs and capacity pressures in the run up to Christmas increased operational costs.	+0.0%
Catalogues and mailshots	Production of fewer catalogues and printed mailshots has increased margin by +0.8%. Photography savings have reduced, increasing margin by +0.2%.	+1.0%
Online marketing	Investment in digital marketing means costs have grown faster than sales.	- 0.3%
Systems	Investment in online systems software and development has reduced margin.	- 0.2%
Central overheads	Central overheads have not grown as fast as sales, increasing margin by +0.2%.	+0.2%
Net operating margin on total sales this year		24.4%

International Retail and franchise stores

Our franchise partners currently operate 194 stores in 32 countries. During the year our partners opened eight new stores and sales have increased by +7.8%. Profit has reduced due to franchise partners lowering their local selling prices (which reduced the royalty we received) and the impairment of assets in six of our overseas stores.

Strategic Report (continued)

Outlook for 2018/2019

In many ways the challenges of the current environment along with the consequent economic changes to our business sets the agenda for the year ahead. We are very clear about our priorities:

- Continue to improve and develop our product ranges.
- Defend Retail sales and profitability.
- Attack costs across the Group (through innovation and negotiation and never at the expense of service or quality).
- Maximise the potential for profitable growth Online.

Improving Product Ranges

The quality and design of our product ranges remain all important and improving them is at the heart of what we do. The improvements we have made to our buying and design processes are the sum of many small changes, which we will not detail here. The improvement we saw in our quarterly performance last year gives us the confidence that we are moving in the right direction. We believe that we have further to go. In general terms we are looking to achieve the following:

- Ensure that our ranges have well-designed, great quality heartland product at every level of our price architecture.
- Do more to harness and react to the design expertise within the business and its supply base.
- Extend choice online where relatively low stock investment allows us to experiment and extend the breadth of our offer.
- Develop new sources of supply.

Defend Retail Sales and Profitability

We are reconciled to the fact that Retail sales are likely to decline in the medium term and have set our budgets accordingly. However, that does not mean that we can do nothing to mitigate the effects of declining like-for-like sales. We can introduce restaurants, cafes and other concessions which generate additional revenue and increase footfall to our shops. We can manage both our operational and occupancy costs down to a level that suits the current retail environment. Most importantly, we can develop the positive role our stores already play as an integral part of our Online platform bearing in mind around 50% of our orders are delivered through stores. The average value of store orders is lower than home deliveries but they still account for 43% of all Online sales. There is much more that can be done to make our stores and their stock holding an active part of our Online business.

Attack Costs

In light of the costs inherent in the structural shift online the need to make cost savings is greater than ever. However, we need to be careful. It would be easy to cut costs by reducing the quality of goods and services or underinvest at a time investment is central to online growth.

We are acutely aware of these risks and are clear that cost savings must not come at the expense of our customers or the business. Cost savings need to come through working smarter, using new technology, right sizing our Retail fixed costs and ensuring that we are cutting the marketing expenditure which is losing relevance in the online world.

Maximise Growth Online

We continue to develop our product offer online: expanding the breadth of our own product offers alongside those of our partner brands through LABEL and Lipsy & Co.

Strategic Report (continued)

In March 2016 we acknowledged that we had fallen behind best in class in terms of our website functionality, online marketing and data management. During the last twenty-four months we have significantly increased our investment in the systems and the people required to improve our performance. We spent an additional £11m in the year on software and IT and marketing professionals. This investment included a new Data Management Platform, Content Management System, Customer Segmentation System, and Optimisation and Testing Platform. None of this software has been capitalised and is fully expensed in the year of purchase.

These systems all served to improve our online capability and resulted in a large number of small improvements to the online shopping experience. Initiatives include intelligent recommendations, a new mobile site, new flowers site, faster checkout and registration, the introduction of NEXT Unlimited (unlimited deliveries to home for £20 a year) and a whole host of other small improvements.

Risks and uncertainties

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

Description of risk or uncertainty

Business strategy development and implementation

If the NEXT Board adopts the wrong business strategy or does not implement its strategies effectively, the business may suffer. The Board therefore needs to understand and properly manage strategic risk, taking into account specific retail sector risk, in order to deliver long term growth for the benefit of the Company's stakeholders.

Management team

The success of NEXT Retail Limited relies on the continued service of its senior management and technical personnel, and on its ability to continue to attract, motivate and retain highly qualified employees. The retail sector is very competitive and the Company's staff may be targeted by other companies.

How the risk or uncertainty is managed or mitigated

The Board reviews business strategy on a regular basis to determine how sales and profit budgets can be achieved or bettered, and business operations made more efficient. Seasonal and annual budgets together with longer term financial objectives and cash flow forecasts are produced.

The Board and senior management consider strategic risk factors, wider economic and industry specific trends that affect the Company's businesses and the competitive position of its product offer.

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 forecasts for our Retail business have therefore been prepared and stress tested during the year. These forecasts provide a mechanism for ensuring that business profitability is reviewed and managed and agreed actions are in place to take into account changing behaviours and trends.

Remuneration packages are reviewed at least annually and are formulated to retain and motivate these employees, including long term incentive schemes. In addition, the Board considers the development of senior managers to ensure adequate career development opportunities for key personnel, with orderly succession and promotion to important management positions.

Strategic Report (continued)

Description of risk or uncertainty

Product design and selection

NEXT Retail Limited's success depends on designing and selecting products that customers want to buy, at appropriate price points and in the right quantities. In the short term, a failure to properly manage this area may mean that the Company is faced with surplus stocks that cannot be sold at full price and may have to be disposed of at a loss. In the longer term, the reputation of the NEXT Brand may suffer. Product design and selection is therefore at the heart of the business.

Key suppliers and supply chain management

NEXT Retail Limited relies on its supplier base to deliver products on time and to the quality standards it specifies. Failure to do so may result in an inability to service customer demand or adversely affect the Company's reputation.

Changes in global manufacturing capacity and costs may impact on profit margins.

Non-compliance by suppliers with the Company's Code of Practice may increase reputational risk.

How the risk or uncertainty is managed or mitigated

Executive directors and senior management continually review the design, selection and performance of NEXT's product ranges. To some extent, product risk is also mitigated by the diversity of NEXT's ranges.

In addition, 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.

NEXT Retail Limited continually seeks ways to develop its supplier base so as to reduce over reliance on individual suppliers of products and services, and maintain the quality and competitiveness of its offer. The Company's risk assessment procedures for key suppliers identify alternatives and develop contingency plans in the event of key supplier failure.

Existing and new sources of supply are developed in conjunction with NEXT Sourcing, external agents and/or direct suppliers.

The Company carries out regular inspections of its suppliers' operations to ensure compliance with the standards set out in this Code; covering production methods, employee working conditions, quality control and inspection processes.

NEXT Retail Limited monitors and reviews the financial, political and geographical aspects of its supplier base to identify any factors that may affect the continuity or quality of supply of its products.

NEXT Retail Limited also monitors and reviews stock availability on an ongoing basis to ensure that issues are identified and appropriate action is taken where any issues are impacting service delivery to customers.

Strategic Report (continued)

Description of risk or uncertainty

Warehousing and distribution

The NEXT Group regularly reviews the warehousing and distribution operations that support the business. Risks include business interruption due to physical damage, access restrictions, breakdowns, capacity shortages, IT systems failure (see next page), inefficient processes and third party failures.

Customer experience

The Company's performance depends on the recruitment and retention of customers, and on its ability to drive and service customer demand. This includes having an attractive, functional and reliable website and effective call centres, operating successful marketing strategies, and providing both Retail and Online customers with service levels that meet or exceed their expectations.

Information security, business continuity and cyber risk

The Company is dependent upon the continued availability and integrity of its IT systems, which must record and process substantial volumes of data and conduct inventory management accurately and quickly. The Company's systems require continuous enhancement and investment 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.

How the risk or uncertainty is managed or mitigated

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 monitored continuously to ensure goods are delivered to our warehouses, Retail stores and Online customers in a timely and cost-efficient manner.

During the year we reviewed our warehousing and logistics operations to ensure that we proactively manage changes in our customer demand between Retail stores and Online customers.

Business continuity plans and insurance are in place to mitigate the impact of business interruption.

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.

The Company continuously monitors website and call centre operations that support the business to ensure that there is sufficient capacity to handle volumes.

Call centre employees receive comprehensive and relevant training on an on-going basis, targeting our service to be at its highest possible levels.

The Company is continuing to invest in the development of our UK and overseas websites. These developments are formally appraised and are designed to further improve the online customer experience.

Systems' vulnerability and penetration testing is carried out regularly to ensure that data is protected from corruption or unauthorised access or use.

Critical systems are reviewed and tested periodically to ensure they have backup facilities and business continuity plans in place; these are updated on an ongoing basis to reflect business risk.

Major incident simulations and business continuity tests are carried out periodically.

Strategic Report (continued)

Description of risk or uncertainty

Information security, business continuity and cyber risk (continued)

Retail store network

NEXT Retail's performance depends on profitably developing the trading space of the store network. The successful development of new stores depends on a number of factors including the identification of suitable properties, obtaining planning permissions and the negotiation of acceptable lease terms. Prime retail sites will generally remain in demand, and increased competition for these can result in higher future rents.

Financial, treasury, liquidity and credit risks

The main financial risks are the availability of funds to meet business needs, default by counterparties to financial transactions, the effect of fluctuations in foreign exchange rates and interest rates, and compliance with regulation. Adequate financing facilities are required to support the operational needs of the business.

NEXT Retail Limited is also exposed to credit risk, particularly in respect of its Online customer receivables, which at £1.1bn represents the largest item on the Company's Balance Sheet.

How the risk or uncertainty is managed or mitigated

IT risks are also managed through the application of internal policies and change management procedures, contractual service level agreements with third-party suppliers, and IT capacity management.

As the nature of cyber attack risk is constantly changing and becoming ever more sophisticated, NEXT continually works towards improving mitigating controls and supports significant resource and investment in this area, including employee data security awareness training.

The predominantly leased store portfolio is actively managed by senior management, with openings, refits and closures based on store profitability and cash payback criteria.

Regular reviews of lease expiry and break clauses are undertaken to identify opportunities for exit or renegotiation of commitments. Profiling of the Company's lease commitments is also regularly reviewed by the Board.

NEXT Retail will continue to invest in new space where its financial criteria are met, and will renew and refurbish its existing portfolio when appropriate.

NEXT Plc operates a centralised treasury function which is responsible for managing its liquidity, interest and foreign currency risks. The treasury function operates under a Board approved policy. This includes approved counter-party and other limits which are designed to mitigate the NEXT Group's exposure to financial risk.

The NEXT Group has adequate medium and long term financing in place to support its business operations, and the Group's cash position and forecasts are regularly monitored and reported to the Board.

Rigorous procedures are in place with regard to the Company's 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.

Strategic Report (continued)

Employees

The Company's employees are integral to achieving its business objectives and the Company actively takes steps to attract and retain the right people to work at every level throughout the business. The NEXT Group has established policies for recruitment, training and development of personnel and is committed to achieving excellence in health, safety, welfare and the protection of employees and their working environment.

Equal opportunities and diversity

NEXT Retail Limited is an equal opportunities employer and will continue to ensure that it offers career opportunities without discrimination. Full consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities and in accordance with relevant legislation. The Company continues the employment wherever possible of any person who becomes disabled during their employment, providing assistance and modifications where possible. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

Training and development

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

Employee communication

The Company has a policy of providing employees with financial and other information about the business and ensures that the suggestions and views of employees are taken into account. The NEXT Group has an employee forum made of elected representatives from throughout the business who attend meetings at least twice a year with directors and senior managers. This forum enables and encourages open discussion on key business issues, policies and the working environment.

Pension provision

The Company's employees are eligible to participate in the NEXT Group Pension Plan which provides a valuable pension benefit to its participating employees, details of which are set out in Note 16 to the financial statements.

Taxation

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

Social, community and human rights

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

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

Strategic Report (continued)

Human rights

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

The Company's approach is to implement the United Nations Guiding Principles on Business and Human Rights (UN Guiding Principles). As a business we shall 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 Retail Limited takes seriously any allegation of human rights abuse in all its forms and will not tolerate human rights abuse anywhere in its operations. We have developed training and awareness initiatives for our employees, suppliers, business partners and service providers.

Suppliers

NEXT Retail Limited continues to focus on its supply chain as it recognises that there is potential for human rights issues to arise in this area. In common with other retailers, NEXT's product supply chain is both diverse and dynamic. During the year, NEXT products were sourced from over 1,500 direct and indirect (i.e. sourced via agents) suppliers, with products manufactured in around 40 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 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 continue to deliver training to our product teams, other relevant employees and to third parties providing NEXT product, ensuring they understand the vital role they play in our ethical trading programme.

The COP team carried out over 1,900 factory audits in 2017/18 and work directly with suppliers to identify and address causes of non-compliance. The Company 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 have published a list of our suppliers' manufacturing sites producing NEXT branded products at www.nextplc.co.uk.

Customers

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

NEXT Retail Limited endeavours to provide a high quality service to its customers, whether they are shopping through its stores or online. NEXT Customer Services interacts with Retail and Online customers to resolve enquiries and issues. Findings are recorded and the information is used by other areas of the business to review how a product or service can be improved.

Strategic Report (continued)

Health and safety

NEXT Retail Limited recognises the importance of health and safety and its management is designed to contribute to business performance. The Company objectives are to manage all aspects of its business in a safe manner and take practical measures to ensure that its activities and products do not harm the public, customers, employees or contractors. Policies and procedures are reviewed and audited regularly.

Environmental matters

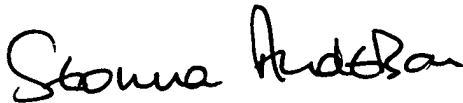
The Company recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future.

Key areas of focus are:

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

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

By order of the Board



Seonna Anderson
Secretary
15 June 2018

Directors' Report

Disclosures required under the 2013 amendment to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of employee matters (including the employment, training and advancement of disabled persons), future developments and environmental matters are given in the Strategic Report. No donations were made for political purposes (2017: £nil).

Dividends

Equity dividends were paid during the financial period of £500m (52 week period ended 28 January 2017: £nil). The directors do not propose payment of a final dividend.

Directors

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

Lord Wolfson of Aspley Guise
Michael Law
Amanda James

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

Going concern

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

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

Auditor

PricewaterhouseCoopers LLP has expressed its willingness to continue in office and a resolution proposing their reappointment was proposed and passed at the 2018 NEXT plc AGM.

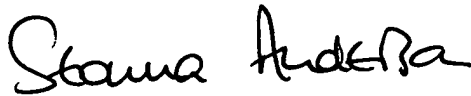
Directors' Report

Disclosure of information to the auditor

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

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

By order of the Board



Seonna Anderson
Secretary
15 June 2018

Directors' Responsibilities Statement

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

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

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

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

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

Independent Auditors' Report to the Members of NEXT Retail Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 27 January 2018 and of its profit for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "*Reduced disclosure framework*", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Reports and financial statements (the "Annual Report"), which comprise: the Balance Sheet at 27 January 2018; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

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

Independent Auditors' Report to the Members of NEXT Retail Limited

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 27 January 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Independent Auditors' Report to the Members of NEXT Retail Limited

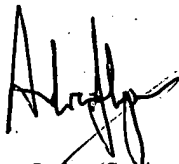
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Andrew Lyon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
15 June 2018

Profit and Loss Account

for the 52 week period ended 27 January 2018

		<i>52 weeks to 27 January 2018 £000</i>	<i>52 weeks to 28 January 2017 £000</i>
	<i>Notes</i>		
Turnover	2	3,950,301	4,007,048
Cost of sales		(2,675,035)	(2,708,881)
Gross profit		1,275,266	1,298,167
Distribution costs		(441,364)	(422,070)
Administrative expenses		(174,673)	(156,012)
Operating profit	3	659,229	720,085
Interest payable	6	(105,073)	(87,487)
Profit before taxation		554,156	632,598
Taxation	7	(119,688)	(127,700)
Profit for the financial period		<u>434,468</u>	<u>504,898</u>

Statement of Comprehensive Income

for the 52 week period ended 27 January 2018

		<i>52 weeks to 27 January 2018 £000</i>	<i>52 weeks to 28 January 2017 £000</i>
	<i>Notes</i>		
Profit for the financial period		434,468	504,898
<i>Other comprehensive income and expenses</i>			
Items that may be reclassified to profit or loss			
(Losses)/gains on cash flow hedges		(116,038)	89,033
Transferred to Profit and Loss Account on cash flow hedges		(8,205)	(72,573)
Transferred to the carrying amount of hedged items on cash flow hedges		15,451	(23,413)
Tax relating to components of other comprehensive expense	7	19,664	1,391
Other comprehensive expense for the period		<u>(89,128)</u>	<u>(5,562)</u>
Total comprehensive income for the period		<u>345,340</u>	<u>499,336</u>

Balance Sheet

at 27 January 2018

		27 January 2018 £000	28 January 2017 £000
	<i>Notes</i>		
Fixed assets			
Intangible assets	9	2,496,368	2,496,368
Tangible assets	10	353,157	364,192
		<u>2,849,525</u>	<u>2,860,560</u>
Current assets			
Stock	11	488,628	457,468
Debtors			
Due after more than one year	12	33,678	10,174
Due within one year	13	1,187,094	1,101,968
Cash at bank and in hand	14	32,314	28,310
		<u>1,741,714</u>	<u>1,597,920</u>
Creditors: amounts falling due within one year	15	<u>(1,635,544)</u>	<u>(1,347,040)</u>
		106,170	250,880
Net current assets		<u>106,170</u>	<u>250,880</u>
Total assets less current liabilities		2,955,695	3,111,440
Creditors: amounts falling due after more than one year		(547)	(5,414)
Net assets		<u>2,955,148</u>	<u>3,106,026</u>
Capital and reserves			
Called up share capital	19	1	1
Fair value reserve		(59,159)	29,969
Profit and loss account		3,014,306	3,076,056
Total equity		<u>2,955,148</u>	<u>3,106,026</u>

These financial statements were approved and authorised for issue by the Board of directors on 15 June 2018.



Amanda James
Director

Statement of Changes in Equity

for the 52 week period ended 27 January 2018

	<i>Share capital £000</i>	<i>Fair value reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 31 January 2016	1	36,922	2,578,039	2,614,962
Profit for the financial period	-	-	504,898	504,898
Other comprehensive (expense)/income for the period	-	(6,953)	1,391	(5,562)
Total comprehensive (expense)/income for the period	-	(6,953)	506,289	499,336
Tax recognised directly in equity	-	-	(8,272)	(8,272)
At 28 January 2017	1	29,969	3,076,056	3,106,026
Profit for the financial period	-	-	434,468	434,468
Other comprehensive (expense)/income for the period	-	(89,128)	-	(89,128)
Total comprehensive (expense)/income for the period	-	(89,128)	434,468	345,340
Equity dividends paid	-	-	(500,000)	(500,000)
Tax recognised directly in equity	-	-	3,782	3,782
At 27 January 2018	1	(59,159)	3,014,306	2,955,148

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

1. Accounting policies

Basis of preparation

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

The financial statements have been prepared on the historical cost basis except for certain financial instruments and share based payment liabilities which are measured at fair value. The financial statements are for the 52 weeks to 27 January 2018 (last year 52 weeks to 28 January 2017) and the principal accounting policies adopted are set out below.

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

As explained in the Directors' Report on page 16, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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

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

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

Goodwill

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

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

Tangible assets

Plant and vehicles are stated at cost less accumulated depreciation and impairment.

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

Plant and vehicles

6 – 25 years

Impairment

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

Stock

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

Online and other debtors

Online customer debtors represent outstanding customer balances less any allowance for impairment which is based on objective evidence and recent default experience by customer account category. Other trade debtors are stated at invoice value less any allowance for impairment.

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

1. Accounting policies (continued)

Share-based payments

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

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

Taxation

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Cash at bank and in hand

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

Bank borrowings

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

Turnover

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

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

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

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

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

1. Accounting policies (continued)

Foreign currencies

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

Derivative financial instruments and hedge accounting

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. In accordance with NEXT Group treasury policy, the Company does not enter into derivatives for speculative purposes. 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 exchange rates.

Changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in equity in the fair value reserve, and subsequently transferred to the carrying amount of the hedged item or the Profit and Loss Account. Realised gains or losses on cash flow hedges are therefore recognised in the Profit and Loss Account in the same period as the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the Profit and Loss Account.

Changes in the fair value of derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS39 "*Financial instruments: recognition and measurement*" are recognised in the Profit and Loss Account.

Pension arrangements

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

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

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

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

Full details of the scheme are available in NEXT plc Annual Reports and Accounts. Please refer to Note 16 for further details.

Leasing commitments

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

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

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

1. Accounting policies (continued)

Significant areas of estimation and judgment

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

a) Recoverable amount of Online customer receivables

The provision for potentially irrecoverable debtors (refer to Note 13) is calculated using a combination of internally and externally sourced information, including historical default and collection rates and other credit data. The basis for identifying when debtors are potentially impaired has been applied consistently. A 1% movement in default rate would move the provision by c£2.5m. A 1% movement in the collections rate would change the provision balance by c£0.8m.

b) Net realisable value of inventories

The selling prices of inventory are estimated to determine the net realisable value of inventory (£488.6m at 27 January 2018). Historical sales patterns and post year end trading performance are used to determine these. A 2% change in the volume of inventories going to clearance would impact the net realisable value by c£4m. A 2% change in the level of markdown applied to the selling price would impact the value of inventories going to clearance by c£8m.

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

2. Turnover

	2018	2017
	£000	£000
Sale of goods	3,719,485	3,785,034
Directory account interest	223,235	213,713
Royalties	7,581	8,301
	<u>3,950,301</u>	<u>4,007,048</u>

Turnover by geographical location:

	2018	2017
	£000	£000
United Kingdom	3,532,443	3,652,887
Rest of Europe	223,650	198,365
Asia	55,778	47,067
Middle East	109,621	83,900
Rest of World	28,809	24,829
	<u>3,950,301</u>	<u>4,007,048</u>

3. Operating profit

This is stated after charging/(crediting):

	2018	2017
	£000	£000
Depreciation on owned assets	94,256	91,004
Loss on disposal of tangible assets	503	340
Impairment of tangible assets	3,236	3,156
Operating lease rentals*:		
Minimum lease payments	4,189	4,328
Net foreign exchange gains	(3,020)	(4,968)
Auditors' remuneration:		
Audit services	304	336
Cost of stock recognised as an expense	1,502,262	1,518,274
Write down of stock to net realisable value	111,763	106,413
Trade debtors:		
Impairment charge	28,304	34,940
Amounts recovered	(4,025)	(6,832)

* Store related costs (including rent) are recharged from fellow wholly owned subsidiaries and as such disclosures in relation to these transactions are exempt from disclosure, see Note 17. Full rental disclosures are set out in the financial statements of Next Holdings Limited.

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

4. Staff costs

	2018 £000	2017 £000
Wages and salaries	393,858	406,597
Social security costs	26,720	23,935
Other pension costs	14,143	13,130
	<u>434,721</u>	<u>443,662</u>
Share based payments expense:		
Equity settled	11,247	10,341
Cash settled	(5,738)	(813)
	<u>440,230</u>	<u>453,190</u>

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

	2018 No.	2017 No.
Retailing	33,476	38,410
Other activities	78	72
	<u>33,554</u>	<u>38,482</u>

If the number of hours worked were converted on the basis of a full working week, the equivalent average number of full-time employees would have been 18,677 (2017: 20,589).

5. Directors' emoluments

None of the directors received any remuneration from the Company for the period ended 27 January 2018 (2017: £nil). All of the directors were also directors of the ultimate parent company, NEXT plc, and their emoluments for services to the Group are disclosed in the report and accounts of that company. The directors believe that it is not practicable to apportion their remuneration between qualifying services for this company and other Group companies in which they hold office.

6. Interest payable

	2018 £000	2017 £000
Interest on bank loans and overdrafts	43	115
Interest payable to Group undertakings	105,030	87,372
Total interest payable	<u>105,073</u>	<u>87,487</u>

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

7. Taxation

	2018	2017
	£000	£000
<i>Current tax:</i>		
UK corporation tax on profits of the financial period	115,397	132,639
UK corporation tax in respect of previous years	3,148	(5,496)
	<u>118,545</u>	<u>127,143</u>
Overseas tax	2,020	801
Total current tax	<u>120,565</u>	<u>127,944</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(4,905)	(1,634)
Adjustments in respect of previous years	4,028	1,390
Tax expense reported in the Profit and Loss Account	<u>119,688</u>	<u>127,700</u>

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

	2018	2017
	%	%
UK corporation tax rate	19.2	20.0
Expenses not deductible for tax purposes	0.9	0.5
Branch exemption	(0.3)	(0.2)
Deferred tax rate change	0.2	0.9
Tax under/(over) provided in previous years	1.5	(1.0)
Effective total tax rate on profit before taxation	<u>21.5</u>	<u>20.2</u>

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

	2018	2017
	£000	£000
<i>Deferred tax:</i>		
Movements on derivative instruments	(19,664)	(1,391)
Tax credit in the Statement of Comprehensive Income	<u>(19,664)</u>	<u>(1,391)</u>

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

	2018	2017
	£000	£000
<i>Current tax:</i>		
Share based payments	819	1,868
<i>Deferred tax:</i>		
Share based payments	2,963	(10,140)
Tax credit/(charge) in the Statement of Changes in Equity	<u>3,782</u>	<u>(8,272)</u>

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

7. Taxation (continued)

Deferred tax asset

	2018 £000	2017 £000
Accelerated capital allowances	11,565	9,641
Revaluation of derivatives to fair value	13,401	(6,263)
Share based payments	6,568	2,836
Other temporary differences	2,144	3,960
	<u>33,678</u>	<u>10,174</u>

The movement in the financial period is as follows:

	2018 £000	2017 £000
Opening position	10,174	18,679
Credited/(charged) to the Profit and Loss Account:		
Capital allowances	1,924	(396)
Share based payments	769	(1,563)
Other temporary differences	(1,816)	2,203
Recognised directly in the Statement of Comprehensive Income	19,664	1,391
Recognised directly in the Statement of Changes in Equity	2,963	(10,140)
Closing position	<u>33,678</u>	<u>10,174</u>

8. Dividends

	2018 £000	2017 £000
Equity dividends of £500,000 (2017: £nil) per share	<u>500,000</u>	<u>-</u>

9. Intangible assets

	<i>Goodwill</i> £000
<i>Carrying amount</i>	
At 27 January 2018 and 28 January 2017	<u>2,496,368</u>

Goodwill relates entirely to the acquisition of the business and net assets of NEXT Near East Limited on 1 February 2003 and is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 27 January 2018 was measured on the basis of value in use. As this exceeded carrying value, no impairment loss was recognised.

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

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

10. Tangible assets

	<i>Plant and vehicles £000</i>
<i>Cost:</i>	
At 29 January 2017	1,303,462
Additions	87,928
Transfer to Group undertakings	(832)
Adjustment	12,764
Disposals	<u>(71,846)</u>
At 27 January 2018	<u>1,331,476</u>
<i>Accumulated depreciation:</i>	
At 29 January 2017	939,270
Provided during the financial period	94,256
Impairment	3,236
Transfer to Group undertakings	(8)
Adjustment	12,764
Disposals	<u>(71,199)</u>
At 27 January 2018	<u>978,319</u>
<i>Carrying amount:</i>	
At 27 January 2018	<u>353,157</u>
At 28 January 2017	<u>364,192</u>

The adjustment lines reflect the result of a review of the fixed asset register in the current financial period, where items that were previously disclosed as being disposed of are still in use by the Company.

At 27 January 2018 the Company had entered into contractual commitments for the acquisition of plant and vehicles amounting to £11,596,000 (2017: £11,868,000).

11. Stock

	<i>2018 £000</i>	<i>2017 £000</i>
Work in progress	2,931	2,634
Finished goods and goods for resale	485,697	454,834
	<u>488,628</u>	<u>457,468</u>

12. Debtors due after more than one year

Included within current assets is a deferred tax asset of £33,678,000 (2017: £10,174,000) which is due after more than one year, details of which can be found at Note 7.

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

13. Debtors due within one year

	2018 £000	2017 £000
Online customer debtors	1,255,573	1,139,278
Less: allowance for doubtful debts	(138,721)	(137,515)
	<u>1,116,852</u>	<u>1,001,763</u>
Other trade debtors	14,429	12,018
Less: allowance for doubtful debts	(28)	(243)
	<u>1,131,253</u>	<u>1,013,538</u>
Amounts owed by Group undertakings	18,944	15,494
Amounts owed by related parties	268	346
Other debtors	10,996	5,573
Derivative financial instruments	12,220	54,750
Prepayments and accrued income	13,413	12,267
	<u>1,187,094</u>	<u>1,101,968</u>

Amounts due from Group undertakings are repayable on demand.

No interest is charged on Online customer debtors if the statement balance is paid in full; otherwise balances bear interest at a variable annual percentage rate of 22.9% at the year end date (2017: 22.9%). The carrying values of customer and other receivables equal their fair value.

Expected irrecoverable amounts are provided for based on past default experience. Customer debtors which are impaired, other than by age of default, are separately identified and provided for as necessary.

The credit quality of trade debtors that are neither past due nor impaired can be assessed by reference to the historical default rate for the preceding 365 days of approximately 1% (2017: 1%).

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.

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

Ageing of Online customer and trade debtors:

	2018 £000	2017 £000
Not past due	1,131,632	1,033,064
0 – 30 days past due	42,382	32,926
31 – 60 days past due	9,676	8,567
61 – 90 days past due	5,038	4,698
91 – 120 days past due	6,860	4,317
Over 121 days past due	57,992	55,067
Otherwise impaired	16,422	12,657
	<u>1,270,002</u>	<u>1,151,296</u>

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

13. Debtors due within one year (continued)

Movement in the allowance for doubtful debts:

	2018 £000	2017 £000
Opening position:	137,758	162,524
Amounts charged to the profit and loss account	28,304	34,940
Amounts written off as uncollectible	(23,288)	(52,874)
Amounts recovered during the financial period	(4,025)	(6,832)
Closing position	<u>138,749</u>	<u>137,758</u>

14. Cash at bank and in hand

	2018 £000	2017 £000
Cash at bank and in hand	<u>32,314</u>	<u>28,310</u>

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

15. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Bank loans and overdrafts	11,998	39,744
Trade creditors	134,181	151,854
Amounts owed to parent undertaking	941,497	626,553
Amounts owed to other Group undertakings	71,884	93,270
Other taxation and social security	71,263	71,514
Corporation tax	110,956	124,293
Derivative financial instruments	91,044	24,781
Accruals and deferred income	124,645	137,720
Deferred turnover from sale of gift cards	78,076	77,311
	<u>1,635,544</u>	<u>1,347,040</u>

Creditors falling due after more than one year relates entirely to accruals and deferred income.

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

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

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

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

16. Pension benefit schemes

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 in so far as this is required by current legislation. The defined benefit section was closed to new members in 2000 and over recent years the Group has taken steps to manage the ongoing risks associated with its defined benefit liabilities.

The 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.

The IAS 19 valuation of the defined benefit section was undertaken by an independent qualified actuary as at 27 January 2018 using the projected unit credit method. The net surplus in the plan on an IAS 19 basis at that date was £106.2m (2017: net surplus £62.9m). Further details on changes to the scheme in the financial period and the actuarial assumptions used can be found in the financial statements of the Parent Company, NEXT plc.

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

Full actuarial valuation

The latest full actuarial valuation of the 2013 Plan was undertaken as at 30 September 2016 by Willis Towers Watson (who 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 2017 the 2013 Plan was estimated to be fully funded on a Technical Provisions basis with a surplus in the region of £37m, therefore a deficit contribution was not payable in January 2018.

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.

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

17. Commitments under operating leases

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

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Within one year	1,522	1,537
After one year but not more than five years	2,030	1,401
	<u>3,552</u>	<u>2,938</u>

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

18. Contingent liabilities

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

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

19. Called up share capital

	<i>Authorised</i>	
	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	<u>1</u>	<u>1</u>
	<i>Allotted, called up and fully paid</i>	
	<i>2018</i>	<i>2017</i>
	<i>No.</i>	<i>£000</i>
	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	1,000	<u>1</u>
		<u>1,000</u>

20. Equity-settled share based payments

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

Certain employees of the Company participate in management and sharesave option schemes offered by NEXT plc in its shares. Management share options are granted annually at the prevailing market price at the time of grant and are exercisable between three and ten years following their grant. The Sharesave option scheme operates on a Save-As-You-Earn principle, and offers options at a discount of 20% to the prevailing market rate at the time of grant, exercisable three or five years after the date of grant. A Long Term Incentive Plan (LTIP) is offered to directors and other senior executives below Board level who may receive conditional awards of shares dependent on a three year service condition, a total shareholder return condition and consideration of a general economic underpin test. The Share Matching Plan (SMP) is an equity-settled scheme open to a small number of senior executives below Board level. Further details of all of these schemes are provided in the consolidated financial statements of NEXT Plc.

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 of NEXT plc are settled in shares with no cash-settlement alternative. LTIP awards to other participants were generally cash-settled until March 2017, since that date they are settled in shares. As a result, all LTIP awards were accounted for under IFRS 2 as equity-settled in the 52 weeks ended 27 January 2018.

The fair value of management, Sharesave and SMP options granted is calculated at the date of grants using a Black-Scholes option pricing model, whilst the LTIP uses a Monte Carlo valuation model.

Management and Sharesave options

Options were exercised on a regular basis throughout the financial period and the weighted average share price during this period was £44.24 (2017: £52.89). Options outstanding at 27 January 2018 are exercisable at prices ranging between £10.81 and £70.80 (2017: £10.81 and £70.80), and have a weighted average remaining contractual life of 6.0 years (2017: 5.7 years), further analysed in the table below:

	2018		2017	
	No. of options outstanding	Weighted average remaining contractual life (years)	No. of options outstanding	Weighted average remaining contractual life (years)
Exercise price range				
£10.81 – £38.25	998,121	2.8	1,426,907	3.6
£41.09	1,139,111	9.2	-	-
£41.12 - £42.08	719,421	4.3	647,719	5.3
£54.10 - £59.76	894,950	6.9	1,045,014	7.4
£66.95 - £70.80	993,994	6.7	1,092,169	7.7
Outstanding at end of period	<u>4,745,597</u>	6.0	<u>4,211,809</u>	5.7

SMP options

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

The weighted average remaining contractual life of these options is 5.8 years (2017: 7.6 years). SMP options were exercised at different times in the financial period and the weighted average share price during this period was £43.12 (2017: £52.47).

Notes to the Financial Statements

for the 52 week period ended 27 January 2018

20. Equity-settled share based payments (continued)

Equity-settled LTIP awards

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

The weighted average remaining contractual life of these options is 1.6 years (2017: 1.5 years).

21. Related party transactions

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

	<i>2018</i>	<i>2017</i>
	<i>£000</i>	<i>£000</i>
Transactions with Choice Discount Stores Limited (associate of NEXT plc):		
Sale of goods	4,578	6,061
Trade receivables	268	346

22. Ultimate parent company and controlling party

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