# ANNUAL REPORT & ACCOUNTS

JANUARY 2020

# CONTENTS

## Strategic Report

3 Chief Executive's Review
54 Business Model
56 Key Performance Indicators
58 Risks and Uncertainties
65 Viability Assessment
66 Corporate Responsibility
73 Section 172 Statement

## Financial Statements

**Group Financial Statements**
132 Consolidated Income Statement
133 Consolidated Statement of Comprehensive Income
134 Consolidated Balance Sheet
135 Consolidated Statement of Changes in Equity
136 Consolidated Cash Flow Statement
137 Group Accounting Policies
149 Notes to the Consolidated Financial Statements

**Parent Company Financial Statements**
194 Parent Company Balance Sheet
195 Parent Company Statement of Changes in Equity
196 Notes to the Parent Company Financial Statements

## Governance

80 Directors' Biographies
82 Directors' Responsibilities Statement
83 Corporate Governance Report
90 Nomination Committee Report
91 Audit Committee Report
96 Remuneration Report
122 Directors' Report
124 Independent Auditor's Report

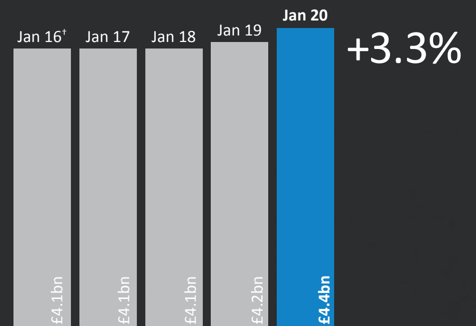
## Shareholder Information

199 Half Year and Segment Analysis
200 Five Year History
201 Glossary
204 Notice of Meeting
216 Other Shareholder Information

# FINANCIAL HIGHLIGHTS

## TOTAL SALES* APM

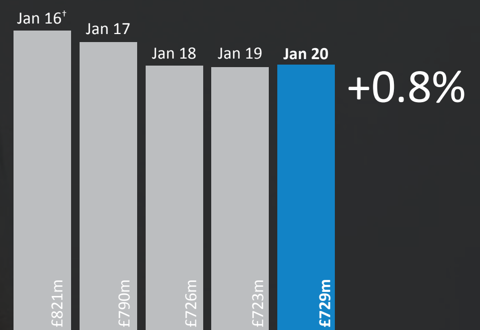
Underlying continuing business




+3.3%

## PROFIT BEFORE TAX APM

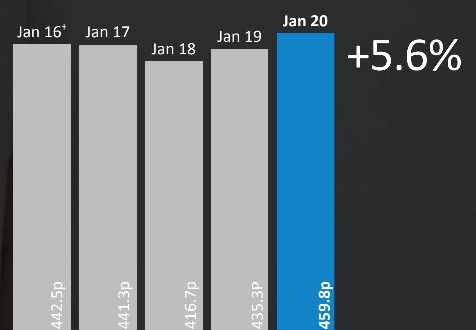
Underlying continuing business




+0.8%

## EARNINGS PER SHARE APM

Underlying




+5.6%

## FINANCIAL HIGHLIGHTS ON STATUTORY BASIS

| | Jan 20 | Jan 19 |
|---|---|---|
| Total revenue (£bn) | 4.3 | 4.2 |
| Profit before tax (£m) | 749 | 734 |
| Earnings per share (p) | 472.4 | 441.7 |

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

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

APM Alternative Performance Measure

# STRATEGIC REPORT


3 Chief Executive's Review
54 Business Model
56 Key Performance Indicators
58 Risks and Uncertainties
65 Viability Assessment
66 Corporate Responsibility
73 Section 172 Statement

# FINANCIAL HEADLINES

NEXT Brand full price sales[1] were up **+4.0%** and Brand total sales[2] (including markdown sales) were up **+3.5%** on last year. Group profit before tax was up **+0.8%** and Earnings Per Share (EPS) were up **+5.6%** on last year**.** Group profit of £728.5m was just ahead of the guidance of £727m given in our January 2020 Trading Statement due to better than expected full price sales in January.

| **TOTAL SALES £m** | **Jan 2020** | **Jan 2019** | |
|---|---|---|---|
| Online | 2,146.6 | 1,918.8 | +11.9% |
| Retail | 1,851.9 | 1,955.1 | - 5.3% |
| Finance | 268.7 | 250.3 | +7.3% |
| **Brand** | **4,267.2** | **4,124.2** | **+3.5%** |
| Other[3] | 94.6 | 96.7 | |
| **Total Group sales** | **4,361.8** | **4,220.9** | **+3.3%** |

| **PROFIT £m and EPS (excluding IFRS 16)** | **Jan 2020** | **Jan 2019** | |
|---|---|---|---|
| Online | 399.6 | 352.6 | +13.3% |
| Retail | 163.9 | 212.3 | - 22.8% |
| Finance (after funding costs)[4] | 146.7 | 127.3 | +15.3% |
| **Brand** | **710.2** | **692.2** | **+2.6%** |
| Other[5] | 25.6 | 35.8 | |
| Recharge of interest to Finance[4] | 36.3 | 34.0 | |
| Operating profit | 772.1 | 762.0 | +1.3% |
| Net external interest | (43.6) | (39.1) | |
| **Profit before tax** | **728.5** | **722.9** | **+0.8%** |
| Taxation | (134.6) | (132.5) | |
| **Profit after tax** | **593.9** | **590.4** | |
| **Earnings Per Share** | **459.8p** | **435.3p** | **+5.6%** |

Statutory sales were up +2.4% and profit before tax, including the effect of IFRS 16, was up +2.0%.

| **STATUTORY BASIS £m and EPS** | **Jan 2020** | **Jan 2019** | |
|---|---|---|---|
| Sales | 4,266.2 | 4,167.4 | +2.4% |
| Profit before tax | 748.5 | 733.6 | +2.0% |
| Profit after tax | 610.2 | 599.1 | +1.9% |
| Earnings Per Share | 472.4p | 441.7p | +7.0% |

The financial information in pages 5 to 49 do not reflect the impact of IFRS 16, Leases. The impact of IFRS 16 is provided in Appendix 1 on page 50 and Note 32 of the financial statements.

---

[1] Full price sales are VAT exclusive sales, excluding items sold in our mid-season, end-of-season Sale events and our Clearance operations. These are not statutory sales (refer to Note 1 of the financial statements).

[2] Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 1 of the financial statements).

[3] Other sales include NEXT Sourcing external sales, Franchise, Lipsy non-NEXT sales and external Property income.

[4] Finance profit for January 2019 has been restated to reflect a change in the calculation of funding costs. See page 32.

[5] Other profit includes NEXT Sourcing, Franchise, Lipsy and Property management.

# TABLE OF CONTENTS

**FINANCIAL HEADLINES ..... 3**

**CHIEF EXECUTIVE'S REVIEW - OVERVIEW ..... 5**

CORONAVIRUS - SUMMARY OF IMPACT ASSESSMENT 5
CORONAVIRUS IN PERSPECTIVE 6
BEYOND THE VIRUS - THE BIG PICTURE 7
FOCUS FOR THE YEAR AHEAD 9

**NEXT ONLINE ..... 10**

ONLINE SALES AND PROFIT 10
LABEL (UK) 13
ONLINE OVERSEAS 15
ONLINE WAREHOUSING 18
CAPACITY IMPROVEMENTS 19
INCREASED INVESTMENT IN SYSTEMS 21
ONLINE MARKETING 22
DEVELOPING NEW BUSINESS 23

**NEXT RETAIL ..... 25**

RETAIL SALES AND PROFIT 25
RETAIL SPACE 26
RENT COSTS AND LEASE RENEWALS 27
RETAIL STORES IN THE NEXT ONLINE PLATFORM 29

**NEXT FINANCE ..... 30**

NEXT FINANCE SALES AND PROFIT 30
CREDIT CUSTOMERS 30
BAD DEBT CHARGE 31
FINANCE OVERHEADS 32
FINANCE BUSINESS BALANCE SHEET AND COST OF FUNDING 32

**OTHER BUSINESS ACTIVITY ..... 33**

NEXT SOURCING 33
LIPSY 33
INTERNATIONAL RETAIL AND FRANCHISE STORES 34
NON-TRADING ACTIVITIES 34
PENSION SCHEME 34

**CASH FLOW ..... 35**

INTEREST 35
TAX 35
ORDINARY DIVIDEND 36
CAPITAL EXPENDITURE 37
BOND, BANK FACILITIES AND NET DEBT 37

**OUTLOOK FOR SALES AND PROFIT ..... 38**

APPROACH TO GUIDANCE IN AN UNFORECASTABLE YEAR 38
1. BASE CASE — BEFORE THE CORONAVIRUS IMPACT 39
2. MODELLING SALES AND COST IMPACT OF CORONAVIRUS 40
3. CASH FLOW MODEL 44
4. MITIGATION 45

**SUMMARY ..... 49**

# CHIEF EXECUTIVE'S REVIEW - OVERVIEW

## CORONAVIRUS - SUMMARY OF IMPACT ASSESSMENT

As might be expected, we begin with a summary of the risks that coronavirus poses to the business and the actions we are taking to weather the storm. When the pandemic first appeared in China, we assumed that the threat was to our supply chain. It is now very clear that the risk to demand is by far the greatest challenge we face and we need to prepare for a significant downturn in sales for the duration of the pandemic.

### *Levels of uncertainty*

We have no experience of a similar crisis so there is no way of predicting the extent that the effect coronavirus will have on our Retail and Online sales. It is not yet clear how widespread the virus will be at any one time, how long the pandemic will last and what the medium to long term effect of this pandemic will be on consumer behaviour.

### *What we can say*

The evidence we have from sales to date in the UK and from our (small) international websites in the worst affected countries is that:

- Demand will be the biggest issue and although the virus is likely to impact our operations, we do not believe this will be as damaging as the very significant drop in sales sustained both in Retail and Online.
- Online sales are likely to fare better than Retail but will also suffer significant losses. People do not buy a new outfit to stay at home. There is some evidence from our overseas sites that as restrictions on movement increase, the difference between Online and Retail sales performance widens, with Online picking up a small amount of the business that cannot be carried out in store.
- Some product areas are likely to fare better than others. To date, our homeware and childrenswear sales appear to be less affected than our adult clothing lines.

### *Priority*

Our priority is to do all we can to keep our workplaces and shops as safe as possible for customers and staff. At the same time we must prepare the business for varying levels of sales declines. To that end we have modelled the effects of differing levels of sales declines along with all the measures we can take to ensure that the Company remains within its bond and bank facilities.

### *Coronavirus stress test*

In our Outlook section (page 38) we have included a detailed stress test that gives the likely cash and profit impact for different levels of sales decline. The scenarios model full price sales losses of £445m, £820m and £1bn respectively. These declines represent -10%, -20% and -25% of our *annual turnover.*

### *Measures we can take to conserve cash*

The stress test details various measures we could take to control costs and conserve cash within the business, given differing levels of sales decline. These potential measures include the suspension of our buyback programme, the delay of discretionary capital expenditure, the sale and leaseback of a warehouse, the part securitisation of customer receivables, the redemption of a loan to our Employee Share Ownership Trust (ESOT) and if necessary, the deferral of our August dividend. Beyond that we, of course, have the option to suspend rather than delay dividends.

More detail is given as to how and when we would trigger these actions on page 45. We should stress that we currently believe it is unlikely that we will need to pull all these levers, but we will ensure that we have the flexibility to take all measures if the need arises.

Combined, actions to conserve cash could retain within the business an additional +£835m of cash. These actions would mean that should the Company lose -20% of annual full price sales we would still have £835m headroom within our current bank and bond facilities at the end of the year. (See page 46).

### *Conclusion of stress test*

The conclusion of our stress test is that the business could comfortably sustain the loss of more than £1bn (25%) of annual full price sales, without exceeding our current bond and bank facilities. This accounts for the business rates holiday announced by Government but *excludes* any use of Government lending or any measures that may be introduced to help with wages during closure.

### *Working through the crisis*

There will be many challenges to our working practices as the pandemic develops and we are putting plans in place to protect our most vulnerable employees, comply with differing levels of Government restrictions and cope with illness throughout the business. In particular, we are adapting our technology for greater home working and seeking to segregate critical operational teams so as to keep all our vital operations and projects on track.

Sourcing and developing new and exciting product ranges for the back end of the year remains vitally important. This will be a particular challenge because it normally involves a great deal of international travel. Our product teams travel to factories to develop new items and to overseas retail markets for inspiration. Such travel is likely to be impossible as the pandemic progresses. We are putting in place measures to compensate for a lack of face to face contact - video conferencing, online inspiration “trips” and more.

## CORONAVIRUS IN PERSPECTIVE

### *The continuing imperative - the mission to evolve*

This report begins by discussing the real and immediate threat of coronavirus. It would be easy for us to talk or think of nothing else, but that would be a mistake. Our sector continues to experience profound and lasting structural changes and these changes are not on hold. Indeed it is possible that the pandemic may accelerate the transition to online shopping. So we cannot afford to neglect our continuing efforts to transform every part of our business.

This process of learning new ways to serve our customers, collaborate with partners and create value for our shareholders is a task that involves every function in our business. Our buying, sourcing, systems, marketing, warehouse, distribution and store teams are all having to re-invent what we do to adapt to a rapidly changing world.

It is the delivery of new product ranges, web systems, fulfilment methods, marketing techniques, warehouse capacity, business ideas, partnerships and more that will determine our longer term destiny. That requires a culture that embraces change and is not afraid to take risks - no mean feat in a crisis.

### *The pandemic will end!*

One thing we can be sure of, at some point the pandemic will pass and when the dust settles it will be the work we have put into (1) securing the cash resources of the business and (2) moving the business forward that will make the difference to the long term future of the Company.

# BEYOND THE VIRUS - THE BIG PICTURE

The following paragraphs summarise our view of how and why people have been changing their shopping habits over the last five years and how we are responding to the long term challenges and opportunities those changes present.

### *The power of choice and the prospect of the high street stabilising*

The internet continues to give consumers unprecedented levels of choice without requiring them to travel to physical stores. The ability of retailers to hold stock in single central locations for nationwide (and worldwide) distribution means that customers can now access products everywhere that they could previously only find in a handful of major shopping locations.

We believe that it is this proliferation of *choice* that is the most important advantage that the internet brings to the consumer. Of course, the ability to deliver goods to a customer's home plays an important part in the service Online provides. But nearly fifty percent of our orders (by volume) are delivered to our stores. So for many people the overriding factor is choice, not the convenience of home delivery.

If online trading were only about home delivery, we might reasonably expect high street sales to stabilise and the split between Online and stores to reach a point of equilibrium relatively soon. But if the driver of change is choice then, in our view, that equilibrium is likely to be a long way off and we are preparing ourselves for many years of transition.

### *The challenge posed by lower barriers to entry*

In the same way that the internet has allowed customers to access far more brands, it has also allowed brands to access far more customers. The internet has dramatically lowered the barriers to entering the retail market, allowing small, niche and new businesses to reach millions of consumers without the need to invest in a network of expensive retail shops and all their supporting infrastructure. This is particularly true if they take advantage of trading on aggregation sites like NEXT.

This is all good news for the consumer and so, in the long run, should be good for our industry; but for an established retailer, with a relatively large UK market share, heavily invested in physical retail assets, this change poses a significant and ongoing challenge.

### *Competing with ourselves*

The risk for NEXT is that our customers find new ways to buy competing brands whilst we remain burdened with expensive retail liabilities (rents, rates, wages etc.). Our response has been to lean into this challenge and actively enable our competitors to reach more customers by selling their product on our Online Platform through LABEL.

We have little doubt that the presence of competing brands increases the competition for our own (higher margin) NEXT branded products, but we believe that longer term it is the only way to survive in the online world. There is nowhere to hide on the internet, one way or another our customers will find the brands they want. If they can find what they want on our website they are more likely to come back to us, furthering our ambition to be our customers' first choice for clothing and homeware online.

## *Overseas opportunities*

Overseas, the internet also presents us with an unprecedented opportunity to leverage our Online assets and profitably develop our brand in territories where *we* are the new contender. For the first time we have found a way to profitably reach customers who, in any one town or city, are insufficient in number to justify the investment in a retail store. The internet allows access to a large number of dispersed populations in a way that stores never could.

## *Direction of travel*

The speed of change is difficult to predict, but the direction of travel remains the same. Nothing has happened in the last year to change our view that the combination of choice, convenience and speed remains the driving force behind the evolution of the UK clothing and homeware market.

At the heart of our business is our NEXT Brand product and our Online Platform — the combination of our products, third-party brands, warehouses, distribution networks, website, customer base, credit facility, marketing systems and stores. In the year ahead we will continue to improve and develop our Platform and our Brand.

## FOCUS FOR THE YEAR AHEAD

**Over and above managing the business through the pandemic** we must ensure that we continue to develop the business: its product ranges, operations and online systems.

Much of this work will revolve around the development of NEXT's Online Platform and its ability to cope with increasing volumes and breadth of offer. The table below sets out some of our priorities by business area.

| | |
|---|---|
| **Warehousing** | Laying the foundations for future growth in volume and breadth of offer through investment in additional **capacity**, improved **systems** and **automation**. The focus will be on systems that consolidate items, quickly and accurately, into individual parcels; a task which becomes harder as the breadth of offer grows.<br>The development of **next-day Platform Plus**, enabling the delivery of items held in third-party warehouses to customers on a 24 hour promise. |
| **Website** | The development of an **onsite marketing** system to target products and brands to the customers most likely to want those items. This system will link with our email and social marketing systems.<br>The improvement of website **speed** and performance.<br>A two-and-a-half year project to modernise the software that supports our website. This project will enhance **resilience** and dramatically improve our ability to develop new website functionality.<br>The development of our first **Total Platform** bespoke website for a third-party partner (see page 24). |
| **LABEL** | The continued addition of **new brands** to our site along with the expansion of ranges from our existing client brands.<br>The extension of our 'Platform Plus' service to additional clients, allowing customers to order products held in third-party warehouses for delivery within 48 hours.<br>The development and expansion of our **licensing** business. |
| **Overseas** | The **extension of ranges** available on our overseas sites including LABEL brands.<br>Increased investment in and improvement to our overseas **digital marketing** (subject to the extent coronavirus interferes with sales).<br>The addition of in-house and third-party **split payment** methods for overseas customers. |
| **Stores** | The continued development of work done in stores for our Online business with particular focus on the instore "fold and pack" returns processing.<br>Mitigation of stores' costs through the renegotiation of **rents** (as and when leases come up for renewal) along with the addition of new **concession** opportunities.<br>Improvement to working-hours rota systems to further improve **productivity**. |

# NEXT ONLINE

## ONLINE SALES AND PROFIT

The NEXT Online Platform delivered strong and profitable growth. Full price sales were up +11.9% and profits were up +13% on last year. Net margin of 18.6% was up +0.2% on last year (page 12).

### *Full Price Sales by Division*

Online full price sales grew by +11.9%, with total sales growth (including markdown sales) also up +11.9%. The table below breaks down *full price* sales growth by division.

| Full price sales £m | Jan 2020 | Jan 2019 | Var % | Var £m |
|---|---|---|---|---|
| NEXT Brand UK | 1,022 | 981 | +4.2% | +41 |
| LABEL UK | 434 | 356 | +21.9% | +78 |
| ***Total UK Online*** | ***1,456*** | ***1,337*** | ***+8.9%*** | ***+119*** |
| Overseas | 436 | 354 | +23.3% | +82 |
| **Total Online full price sales** | **1,892** | **1,691** | **+11.9%** | **+201** |

### *Improved Stock Availability*

We believe Online's sales performance was helped by improved stock availability, achieved through the faster processing of customer returns. As explained in our Half Year Report, we have taken a number of actions to bring items returned to our stores back to our warehouses faster, in order to make them available for resale sooner. This has been achieved by:

1. Increasing the number of delivery vans visiting our Retail stores each day, allowing daily collection of Online returns.
2. Reorganising store staff shift patterns to align them with new delivery schedules and trading patterns.
3. Introducing a simple fold-and-pack operation in stores, so that pristine stock can return to the warehouses "customer ready" and made available for re-order immediately.
4. Identifying at the point returns are being processed through the till, those items that are in highest demand and prioritising their processing.

We are seeing significant benefits from these activities. In the last six months, the average value of returned stock in transit between our stores and warehouse was down -30% compared with the previous year. On average, this meant £15m of additional stock (at full selling price) was available to our Online customers at any one time. During the peak trading weeks in the run up to Christmas, the value of additional stock available was £30m.

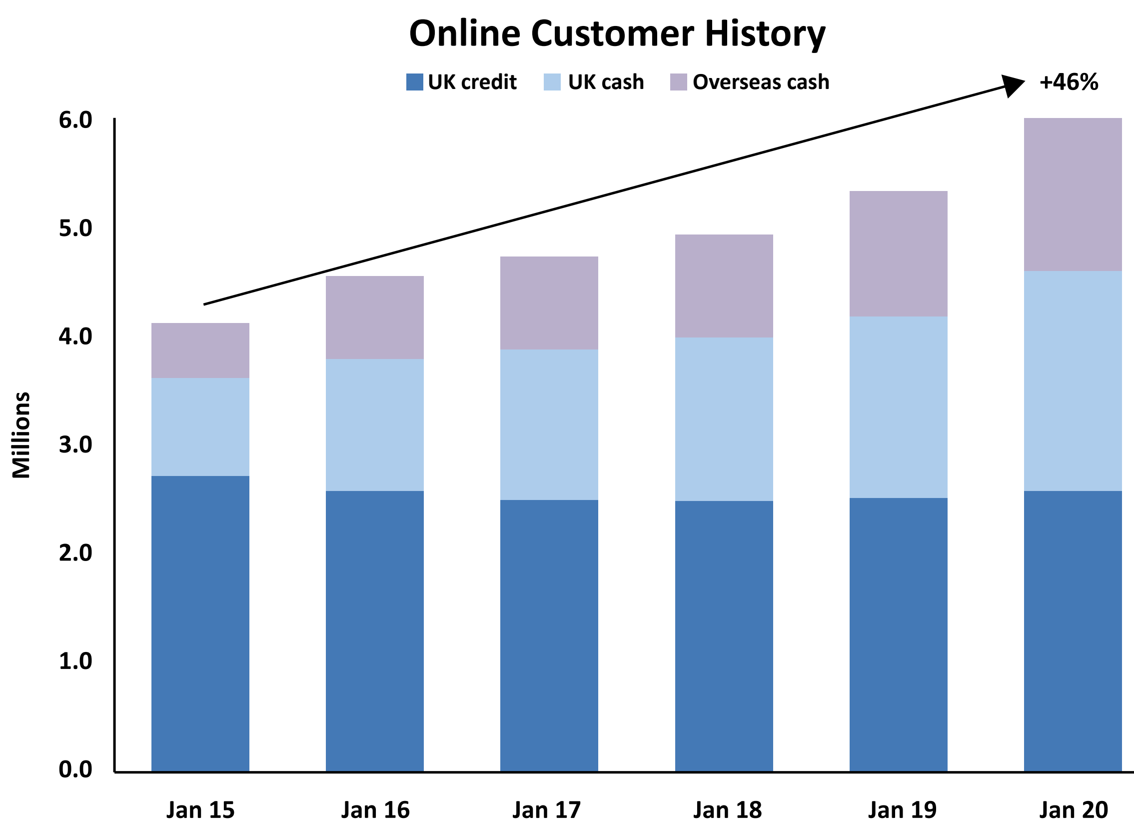
The most successful initiative has been fast tracking high demand items. High demand stock is now processed and available for resale within four days, which compares with 12 days in the previous year.

## *Customer Base*

Average active customers[6] increased by +12.5% to 6 million, driven mainly by the growth in Overseas and UK cash customers. Cash customers are those who do not use our next**pay** credit account when ordering. The table below sets out the growth in the respective parts of our customer base.

For further detailed analysis of credit customer growth see pages 30 to 31.

| Average active customers (m) | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| UK credit | 2.58 | 2.52 | +2.3% |
| UK cash | 2.02 | 1.66 | +21.4% |
| **Total UK** | **4.60** | **4.18** | **+9.9%** |
| Overseas cash | 1.40 | 1.15 | +22.1% |
| **Total** | **6.00** | **5.33** | **+12.5%** |




[6] Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.

### *Profit by Division*

Net margin by division is set out below, together with the change in net margins versus last year.

| Online division | Profit £m | Variance £m | Jan 2020 Net margin % | Net margin % vs Jan 2019 |
|---|---|---|---|---|
| NEXT Brand UK | 247.6 | +19.7 | 21.0% | +1.0% |
| LABEL UK | 77.3 | +11.1 | 15.2% | - 0.8% |
| Overseas | 74.7 | +16.2 | 16.4% | +0.3% |
| **Total Online operating profit** | **399.6** | **+47.0** | **18.6%** | **+0.2%** |

NEXT Brand UK margin was up +1.0% mainly as a result of cost savings made in print and photography along with a small (+0.2%) improvement in bought-in gross margin.

Margin in the LABEL business was managed down to 15.2% mainly as a result of us lowering our headline commission rate on third-party brands. This reduction in bought-in gross margin was in furtherance of our ambition to be our partners' most profitable third-party route to market. Going forward, if we are able to operate more efficiently, we will aim to pass any savings back to our partners by way of further reductions in commission.

### *Margin Movement Analysis*

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

| **Net margin on total sales to January 2019** | | **18.4%** |
|---|---|---|
| **Bought-in gross margin** | Underlying margin on NEXT products improved by +0.2%, mainly due to achieving a better than expected Dollar exchange rate. An increase in the participation of third-party branded sales, which have a lower bought-in gross margin, reduced margin by -0.4%. | **- 0.2%** |
| **Markdown** | A higher participation of full price sales improved margin. | **+0.2%** |
| **Warehousing & distribution** | Growth in overseas sales, which have a higher cost of distribution, eroded margin by -0.3%. Wage inflation and other operational costs reduced margin by -0.3%. | **- 0.6%** |
| **Catalogues & photography** | Production of fewer catalogues and photography savings increased margin. | **+1.2%** |
| **Marketing & systems** | Investment in marketing and systems meant costs grew faster than sales. | **- 0.5%** |
| **Central costs** | Central costs did not grow in line with sales, improving margin. | **+0.1%** |
| **Net margin on total sales to January 2020** | | **18.6%** |

## LABEL (UK)

LABEL sells third-party branded products through our Online Platform and is central to the continued growth of our Online business. Turnover in the year was £510m and net margin was 15%. Our aim is for the LABEL business to:

- become our customers' first choice destination for brands
- be our partners' most profitable third-party route to market
- offer a level of service and integrity that both NEXT and our partners are proud of

### *LABEL Sales and Profit*

Total sales were up +23% and full price sales were up +22%. Profit in the year was £77m, an increase of +17% on last year. LABEL growth has been driven by:

- the introduction of new partner brands, including expansion of our Home and Branded Beauty offer (page 14)
- increasing sales with our existing partner brands, using our Platform Plus model (page 14)

### *LABEL Full Price Sales Analysis*

LABEL full price sales have grown by £78m. This increase is shown below, split into product categories: Clothing, Home and Branded Beauty. In addition, the Brands can be divided into new, discontinued and continuous.

Continuous brands were up +10% with the remaining 12% of growth coming from the net increase from new brands and discontinued brands. Our new Branded Beauty business has grown by £12m, following our collaboration and subsequent acquisition of Fabled (see page 14), which substantially increased the breadth of our Branded Beauty offer.

| **Year on year sales £m** | New | Discontinued | **Net new** | **Continuous** | **Total** |
|---|---|---|---|---|---|
| Clothing | +32 | - 5 | **+27** | **+33** | **+60** |
| Home | +6 | - 1 | **+5** | **+1** | **+6** |
| Branded Beauty | +11 | | **+11** | **+1** | **+12** |
| **Full price sales versus last year** | **+49** | **- 6** | **+43** | **+35** | **+78** |
| **% var to last year's total full price sales** | | | 12% | 10% | 22% |

### *Commission Versus Wholesale*

More than half (56%) of our LABEL business is now on a commission basis and, although we make a lower net margin on a commission brand, we encourage our partners to adopt this model as we believe it helps drive sales growth. This is demonstrated by our full price sales performance (shown below), with commission sales growing by +32%, compared with wholesale which grew by +11%.

| **Full price sales £m** | **Jan 2020** | **Jan 2019** | **Var %** |
|---|---|---|---|
| Wholesale | 190.9 | 171.7 | +11% |
| Commission | 242.7 | 184.0 | +32% |
| **LABEL full price sales** | **433.6** | **355.7** | **+22%** |

Strategic Report
Governance
Financial Statements
Shareholder Information

### *Branded Beauty — Fabled by Marie Claire*

In July 2019, our subsidiary Lipsy acquired Fabled by Marie Claire, a premium branded beauty business. This acquisition has allowed the Group to significantly increase the breadth and depth of beauty products sold through the NEXT Online Platform. Full price sales were £13m in the year contributing £2m of profit to the Group.

In the year ahead, we will add six more premium brands to the ranges available on NEXT's website. Fabled continues to operate on a standalone website (Fabled.com). 40% of the brands (by value) on the Fabled website are also available on the NEXT website and it is these products that drive the lion's share of our growth. In the year ahead, we expect more of the Fabled product to become available on the NEXT website.

### *Platform Plus*

Platform Plus enables us to increase the breadth of our offer by giving our customers access to items stocked in our partners' warehouses. Stock falls into two categories: (1) products that are delivered by NEXT through our distribution networks, which can be consolidated in parcels with other stocked items and (2) products that are delivered by our partners directly to our customers, for example furniture or personalised items. In the year, we achieved sales of £32m with 87 brands. Before the prospect of coronavirus, we had expected full price sales in the year ahead of £48m.

| | Jan 21 (e)<br>No. of brands | Jan 21 (e)<br>£m annual sales | Jan 20<br>No. of brands | Jan 20<br>£m annual sales |
|---|---|---|---|---|
| Delivered by NEXT | 53 | 32 | 26 | 18 |
| Delivered by brand | 89 | 16 | 61 | 14 |
| **Total** | **142** | **48** | **87** | **32** |

We have also started to forecast sales of Platform Plus stock in the week ahead, so we can collect stock in anticipation of future orders. This allows us to improve order consolidation, minimising the number of parcels sent to a customer. This forecasting model is currently live with 11 brands and will be rolled out to at least 15 more over the coming year.

We estimate that Platform Plus has increased sales of our partner brands by +15% and we believe almost all of these sales were incremental to the brand.

# ONLINE OVERSEAS

### *Overseas Sales and Profit*

Our Overseas business has had another good year, with strong growth in both sales and profit. Full price sales were up +23% and total sales (including markdown sales) were up +26%. Profit was up +28% and we achieved a net margin of 16% after all central overheads.

The following sections provide details of full price sales, marketing and customer recruitment.

### *Full Price Sales by Geographical Region*

The table below sets out full price sales growth by geographical region. Sales in all regions have grown, with the fastest growth in our largest regions of Europe and the Middle East.

| Full price sales | No. of countries | % of full price sales | Jan 2020 £m | Jan 2020 vs Jan 2019 |
|---|---|---|---|---|
| Middle East | 14 | 45% | 195 | +34% |
| Europe (EU) | 28 | 34% | 150 | +27% |
| Europe (Non-EU) | 5 | 13% | 55 | +7% |
| Australia and New Zealand | 2 | 6% | 25 | +1% |
| Rest of the World (ROW) | 21 | 2% | 11 | +2% |
| **Total full price sales** | **70** | **100%** | **436** | **+23%** |

### *Full Price Sales Growth by Channel*

Full price sales through our Overseas website (nextdirect.com) grew consistently throughout the year at +24%. Like-for-like sales via third-parties were up +35%, and in the second half of the year we saw strong incremental growth from new partnerships covering nine countries. We ceased trading with two partners during the year.

| Full price sales £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Third-parties | | | |
| New | 5.5 | - | - |
| Continuous | 32.5 | 24.1 | +35% |
| Discontinued | - | 9.0 | - 100% |
| Total third-parties | 38.0 | 33.1 | +15% |
| nextdirect.com | 398.3 | 320.8 | +24% |
| **Total Overseas full price sales** | **436.3** | **353.9** | **+23%** |

### *Increasing Choice Overseas*

Over the past few years we have increased the choice of products offered on our Overseas website by extending the range to include some LABEL brands (400+). Take up was slow initially but we are now starting to see meaningful growth with LABEL brands up +68%. NEXT product full price sales grew by +20% in the year.

| Product full price sales £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| NEXT | 350.1 | 292.0 | +20% |
| LABEL brands | 48.2 | 28.8 | +68% |
| **nextdirect.com full price sales** | **398.3** | **320.8** | **+24%** |

### *Overseas Digital Marketing & Customer Growth*

As our Overseas business continues to grow, we continually evaluate and invest in digital marketing to drive sales while maintaining profit margins. This year we increased our digital marketing spend by £5.6m (+112%). The table below sets out the spend by media channel.

| Overseas marketing £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Display | 2.9 | 1.2 | +142% |
| Search | 3.4 | 1.9 | +79% |
| Social | 4.3 | 1.9 | +126% |
| **Digital marketing spend** | **10.6** | **5.0** | **+112%** |
| Non-digital marketing | 0.7 | 1.8 | - 61% |
| **Total marketing spend** | **11.3** | **6.8** | |

We continue to see a good return on our digital marketing investment. For every £1 spent directly on digital marketing, we expect £1.53 of cash to be generated from incremental orders placed within the first year. We will continue to invest in the areas where we see strong returns.

### *New Customers Recruitment Analysis*

During the year, we recruited customers both organically and via digital marketing. The table below illustrates how important digital marketing is to customer acquisition. Over 55% of all new customers acquired during the year to January 2020 came via digital marketing.

| New customers from previous 12 months ('000s) | Jan 2020 | Jan 2019 | Var | Var % |
|---|---|---|---|---|
| Via marketing | 150 | 60 | +90 | +150% |
| Organic growth in countries with marketing | 760 | 725 | +35 | +5% |
| **Total growth in countries with marketing** | **910** | **785** | **+125** | **+16%** |
| Organic growth in countries without marketing | 285 | 250 | +35 | +14% |
| **Total** | **1,195** | **1,035** | **+160** | **+15%** |

## *Sales Growth from New and Continuous Customers*

Over the past 12 months, new customers spent on average +4% more than the previous year's recruits. Average spend by continuous customers was up +3%. We believe this increase was driven through marketing and increased choice.

| **Full price sales and customers for nextdirect.com** | **Jan 2020** | **Jan 2019** | **Var %** |
|---|---|---|---|
| **New** customers | 1,195k | 1,035k | +15% |
| Average sales per new customer | £93 | £89 | +4% |
| New customer sales | £111m | £92m | +20% |
| **Continuous** customers | 1,290k | 1,055k | +22% |
| Average sales per continuous customer | £223 | £217 | +3% |
| Continuous customers sales | £287m | £229m | +26% |
| **Total customers** | **2,485k** | **2,090k** | **+19%** |
| **Average sales per customer** | **£160** | **£153** | **+4%** |
| **Total full price sales** | **£398m** | **£321m** | **+24%** |

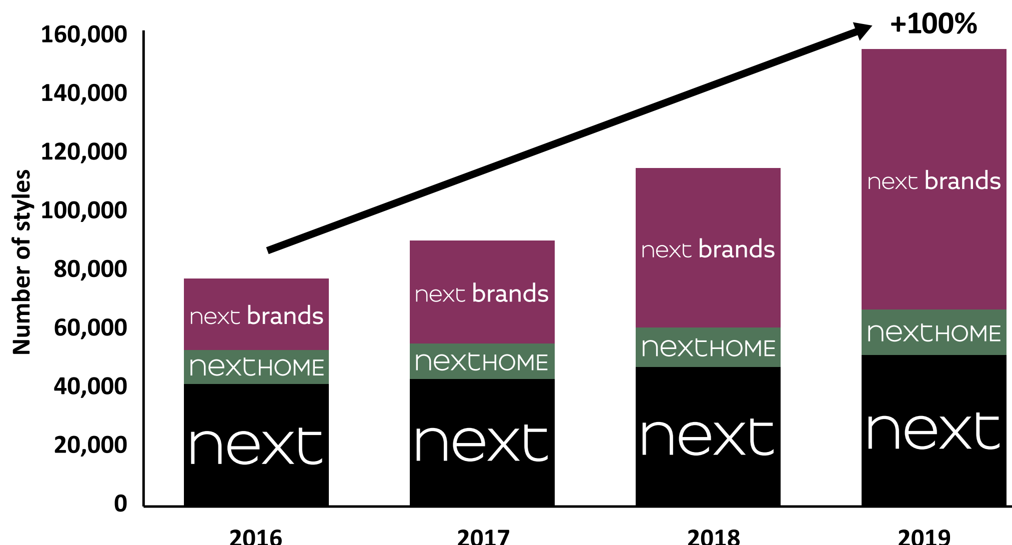
## *Payment Options*

During the second half of the year we added an instalment based repayment option (AfterPay) into one country (Australia). Early results show an increase in the average net order value and we are looking to provide similar repayment options in more countries.

## ONLINE WAREHOUSING

The continued growth of the Online business, and particularly the growth in the choice of unique items, has created ongoing challenges for warehouse infrastructure. Since 2016, the number of unique styles we offer on our website has increased by +100%.

These challenges relate to the efficiency of our space, machinery and people along with the fact that some areas are close to operating capacity. During the year we implemented a number of measures to alleviate these pressures through improved working practices and additional capital investment. We have plans in place for further investment and development in the coming years.




*Average number of distinct styles stocked in our warehouses at a point in time

### *Online Boxed Warehouse Growth*

The activity in our Online boxed warehouse has changed dramatically. To put this in context, in 2000 Online occupied a third of our Retail boxed warehouse. Now, Online is operating to full capacity out of two standalone warehouses. The table below shows the significant change in daily activity in our Online boxed operations; we now pick 10 times more units each day, from an area that is five times larger. Our next-day delivery offer has extended by seven hours, meaning we have less time to pick more stock over a larger area!

| Online boxed warehouse | 2000 | 2020 | Change |
|---|---|---|---|
| Units picked per day | 50k | 500k | **10 x** |
| Warehouse square footage | 320k | 1,700k | **5 x** |
| Order cut-off time for next-day delivery | 5pm | 12 midnight | **+ 7 hours** |
| Minimum time to pick | 9 hours | 2 hours | **- 80%** |

### *The Challenges for Warehousing*

As we grow our Online business the challenges become harder. These challenges can be categorised as cost, speed and accuracy:

- **Cost** — with more SKUs[7] spread over a larger area, our warehouse colleagues have to walk further, so picking costs are higher
- **Speed** — stock has further to travel to packing stations, so takes longer
- **Accuracy** — there is a greater risk of failing to get the right item to the right place on time

### *Parcel Economics*

The costs of fulfilling an order can be broken down into warehouse item picking, parcel packing and parcel delivery. Of these, the cost of delivering parcels is by far the largest. For NEXT, delivery costs represent 68% of the fulfilment costs. Our deliveries are fulfilled by various third-party carriers and we are charged per parcel, rather than per item. If we have to put items into separate parcels, costs rise dramatically. So, the number of items consolidated into a single parcel is central to minimising costs.

### *Capital Discipline*

The current book value of our warehouse and distribution plant and machinery assets is £182m and our annual depreciation charge is £22m, representing around 1% of Online sales. If we were to replace our current infrastructure with new, we estimate it would cost in the region of £750m which would equate to an annual depreciation charge of around £50m. So for NEXT, extending the life of existing equipment is often as important as developing new equipment.

Over the last ten years we have invested in a great deal of new warehouse capacity, systems and mechanisation; but the key to success has been our ability to integrate those investments with our existing operations in order to deliver the maximum benefit for the minimum capital investment.

All investments in our warehouses must either be justified on the basis of (1) the profit generated from the increased sales capacity they facilitate or (2), where they improve productivity, deliver an internal rate of return of more than 20%.

## CAPACITY IMPROVEMENTS

The biggest strain on capacity has been in our boxed warehouses. The following sections cover some of the initiatives we are working on to increase capacity in both the short and long term.

### *2019 Improvements*

In the short term we have had to work on a large number of small initiatives just to keep up with sales growth. These initiatives delivered the capacity required for sales growth and resulted in cost savings of around £1.5m. Some of these initiatives are summarised below.

### *Forward Locations*

In the year we have carried out several small projects, including rewriting our picking software and reconfiguring our forward picking locations. These changes have increased the number of forward locations in our Online boxed warehouse by +25%. This has improved the availability of stock which can be picked for next-day delivery. In turn this has increased the average number of items packed in a parcel, which reduces the delivery cost per item.

[7] A SKU is defined as a unique style in a particular size.

### *Staff Training*

In our previous report we explained that we have overhauled our recruitment and training programmes. Over the last six months we have expanded our training zones to benefit more staff and plan to increase the number of tasks trained this way. During this six month period we have experienced tangible operational benefits, with improvements in staff retention and productivity.

### *Returns Locations*

We recently completed the installation of a new automated returns storage and retrieval system for Online boxed items. This was operational from February 2020. Although it is early days, we anticipate a reduction in picking costs of -30% compared to manual returns locations. When fully complete this will almost double the boxed returns capacity in our main Online warehouse. In addition, it will also serve as an overflow for forward locations.

### *Longer Term Capital Investment Programme*

We are currently two years into a six year programme of increased warehouse and logistics capital expenditure. This includes the development of a new Online boxed warehouse which we expect to be operational in 2022. The spend is largely geared to increasing Online capacity and throughput. However, there are further benefits from improved automation in the form of improved accuracy, parcel consolidation and productivity.

In the next four years we expect to invest around £300m on warehouse capex, which will increase our Online annual sales capacity by £1.7bn. So as a rule of thumb, 18p of capital investment allows £1 of future annual sales capacity.

## INCREASED INVESTMENT IN SYSTEMS

As we go into the year ahead, we will further increase investment in Online systems. The table below categorises Online systems revenue and capital costs by type of expenditure over the last two years and our projection for the year ahead.

| Systems spend (revenue and capital) £m | Jan 19 | Jan 20 | Jan 21 (e) | Jan 21 (e) vs Jan 19 |
|---|---|---|---|---|
| Marketing systems | 10.6 | 12.2 | 15.0 | +42% |
| Warehouse & distribution systems | 4.4 | 6.5 | 8.0 | +81% |
| Website Modernisation | 0.2 | 2.4 | 5.0 | - |
| **Online Platform development** | **15.2** | **21.1** | **28.0** | **+84%** |
| Software maintenance (e.g. security, storage) | 21.8 | 24.2 | 24.4 | +12% |
| Call centre and Head Office functions | 13.8 | 17.7 | 17.8 | +30% |
| **Total Online systems costs** | **50.8** | **63.0** | **70.2** | **+38%** |
| *Online systems P&L charge* | *49.0* | *58.4* | *62.7* | *+28%* |
| *Online systems capital expenditure* | *1.8* | *4.6* | *7.5* | *+328%* |

Ten years ago, our website was relatively simple to code. Since then, the complexity of website coding has moved on dramatically. Search engines and web-based marketing tools have become more sophisticated. The volume of data and transactions has grown dramatically along with the challenges of keeping that data safe; payment methods have multiplied and become more secure and we have added over 50 international sites, many with their own language and tender types. As a result, managing the code that supports our website has become increasingly complex, unwieldy and expensive.

The interdependence of complex and piecemeal legacy code reduces performance, resilience and makes the development of new functionality increasingly challenging. We are addressing these issues by redeveloping our entire website in a Website Modernisation project. We expect this programme to improve the resilience and speed of our site. However, the biggest benefit will be the enhanced ability for us to improve and develop our website going forward.

In essence, the project compartmentalises the different functions within the website (e.g. header, footer, home page, search page, product page, checkout etc.), which will allow each of these areas to be developed and deployed independently of each other, without the risk of a change in one function destabilising other functions within our website. At the same time, Website Modernisation will serve to update and simplify our code base to quickly improve performance and resilience of our site.

The programme is modular and each function will be developed in turn and work alongside the legacy code of functions that have not yet been redeveloped. This approach means that we avoid the risks inherent in grand projects that seek to replace entire systems overnight in one 'big bang' changeover. We have already built the communication layer and our account management function. We aim to deploy our search function within the next few months.

We anticipate Website Modernisation will cost £12m over a period of two and a half years.

## ONLINE MARKETING

We spent £63m on Online marketing, an increase of £13m (+26%) on the prior year. £44m of this expenditure relates to digital marketing, of which £33m was in the UK and £11m was Overseas. £19m was spent on marketing professionals and other online marketing activities such as site content management and translation, brand advertising campaigns, PR and market research.

The increase in Online marketing costs was more than offset by savings made from reducing the number of catalogues we print and savings made on the costs of photography. The table below gives a picture of how our marketing expenditure changed during the year.

| Category £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| UK digital marketing | 33 | 29 | +14% |
| Overseas digital marketing | 11 | 7 | +64% |
| **Total digital marketing** | **44** | **36** | **+23%** |
| Personnel and other marketing costs | 19 | 14 | +33% |
| **Total Online marketing** | **63** | **50** | **+26%** |
| Catalogues and photography | 67 | 85 | - 21% |
| **Total marketing** | **130** | **135** | **- 3%** |

We still produce printed publications every six weeks but send them to fewer customers as more choose to browse and shop Online only. We expect to make at least £10m of further savings in photography and catalogue costs in the year ahead.

# DEVELOPING NEW BUSINESS

In the year ahead we aim to develop two new features of our Online platform: (1) licensing which leverages our ability to source specialist products such as childrenswear and swimwear and (2) Total Platform, which takes our service to third-party brands one step further. Each is discussed in turn below.

## *Licensing*

In our Half Year Report we announced a licensing partnership with Ted Baker and this will launch Online and in ten stores in April 2020. The aim of this business is to enable us to combine our sourcing expertise with our partners' design skills. We now have licence agreements in place with four other brands in the following categories: childrenswear, swimwear, men's suits, men's formal shirts and some home textiles (cushions and curtains). We will continue to look for new opportunities to work in this way.

We are very clear that for our licensing business to be successful, items must genuinely reflect the handwriting and DNA of our partner brands. To that extent, their input into the design process is crucial. Our belief is, where the combination of our sourcing expertise and our partners' design skills produce something genuinely new and valuable for the consumer, the business will be a success.

Before the prospect of coronavirus, we had expected annualised full price sales for new licensed products to be around £20m and to generate £4m of profit.

## *Total Platform — A Trial*

### *Taking working with third-party brands to the next level*

The aim of this Total Platform is to leverage the investment NEXT has made in its warehousing, call centres, distribution networks, customers, marketing and systems and make those assets available to third-party brands through their own dedicated bespoke brand website.

NEXT has agreed heads of terms with a third-party business to build and operate their website for them. The website would look and feel like the client's website but would be built on all the functionality available on NEXT's own website, along with our order by midnight for next-day delivery promise, store collections and returns.

### *Complete online service*

But this trial is much more than an outsourcing deal. The client's website will link into ALL the other elements of our platform. This will allow us to provide all the services the client needs to serve its online customers; from warehousing, distribution, data management, retail deliveries, call centre services through to complaint resolution, returns refurbishment and clearance. We will also be providing a number of dedicated, translated overseas websites for our client with the ability to take payment in local currencies.

### *One simple commission*

Total Platform will offer a pay-as-you-go answer to operating an online business. Clients pay through fixed **commission** on their total sales, which means that the costs such as website, systems and warehousing all vary in line with sales. It also means their businesses can grow without the capital costs, operational risks and time associated with developing new warehousing, systems, distribution networks and website functionality.

We plan to have our first client operational later this year and are actively talking to other brands about providing a similar service in 2021.

# NEXT RETAIL

## RETAIL SALES AND PROFIT

| £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Total sales | 1,851.9 | 1,955.1 | -5.3% |
| Operating profit | 163.9 | 212.3 | -22.8% |
| **Net margin** | **8.9%** | **10.9%** | |

Full price sales were down -4.3% which was +0.8% ahead of the guidance given in September 2019 of -5.1%. Total Retail sales (including markdown sales) were down -5.3% on last year.

We believe that Retail sales were improved by better shop-floor stock availability. During the year we increased the frequency of deliveries at a cost of £1m. We also more closely aligned delivery processing shifts to van arrival times to reduce delay in getting stock onto the shop floor. Following these process changes, stock received and waiting to be put onto the shop floor (store backlog) was reduced by 55%.

Profit was down -23% on last year and net margin reduced by -2.0% to 8.9%, mainly due to the costs of store occupancy and other fixed overheads which did not fall in line with like-for-like sales. Retail wage costs were well controlled and, despite inflationary cost increases, improved productivity meant store payroll costs fell broadly in line with sales.

### *Retail Margin Analysis*

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

| **Net margin on total sales to January 2019** | | **10.9%** |
|---|---|---|
| **Bought-in gross margin** | Underlying bought-in gross margin added +0.3% to margin, mainly due to achieving a better than expected Dollar exchange rate. | **+0.3%** |
| **Markdown** | Lower clearance rates would have reduced margin by -0.8% but were partially offset by a higher participation of full price sales. | **- 0.2%** |
| **Stock loss** | The value of stock loss was flat on last year and did not fall in line with sales, reducing margin. | **- 0.1%** |
| **Store payroll** | Increased rates of pay reduced margin by -0.4%, however this was offset by improved productivity. | **- 0.1%** |
| **Store occupancy** | Falling like-for-like sales increased occupancy costs as a percentage of sales, reducing margin by -1.4%. Rent reductions and additional concession income improved margin by +0.3%. | **- 1.1%** |
| **Warehousing & distribution** | A combination of falling sales (-0.1%), wage inflation (-0.1%) and increased cost of picking and distribution (-0.2%) reduced margin. | **- 0.4%** |
| **Central costs** | Central costs have not reduced in line with sales, reducing margin. | **- 0.4%** |
| **Net margin on total sales to January 2020** | | **8.9%** |

## RETAIL SPACE

Overall net space grew by +98,000 square feet in the year, an increase of +1.2% as set out below. The increase in space came from relocating existing stores into larger sites and the addition of concessions. The reductions came from the closures of stores with low levels of profitability.

| | Store numbers | NEXT Sq. ft. (k) | Concessions Sq. ft. (k) | Total Sq. ft. (k) |
|---|---|---|---|---|
| **January 2019** | **507** | **7,989** | **305** | **8,294** |
| Mainline re-sites (10) | 0 | + 132 | + 57 | + 189 |
| Mainline closures | - 7 | - 70 | - 1 | - 71 |
| Clearance stores | - 2 | - 20 | 0 | - 20 |
| **January 2020** | **498** | **8,031** | **361** | **8,392** |
| Change in square feet | | + 42 | + 56 | + 98 |
| Change % | | + 0.5% | + 18.3% | + 1.2% |

### *New space performance and forecast payback*

Branch profitability[8] of new space opened in the year is forecast to be 21% and the investment in new space is forecast to payback within 27 months (excluding the effects of coronavirus).

### *Store closures and transfer of trade*

We closed seven mainline stores and estimate that around 20% of sales from the closing stores transferred to nearby stores. The marginal profit gained on these transferred sales is the gross margin less the associated additional variable costs. We estimate that profit gained on transferred sales was broadly equal to the profit lost in the closed stores. The table below sets out the store closure economics for last year. The implication is that where stores are making 9% or less net margin and where we are able to transfer 20% to nearby stores, closure is cost neutral.

| £m | Closed stores | Transferred trade | Total |
|---|---|---|---|
| Sales (VAT inclusive) | - 11.9 | 2.3 | **- 9.6** |
| Net margin before central overheads (NBC) | - 1.0 | 1.0 | **0.0** |
| **% NBC** | **8%** | **44%** | |

### *Concessions*

Concession space grew by +18% in the year and now represents 4.3% of all Retail space. Annual rental income has increased by £2m to £14m and now accounts for 7% of our total store rent bill.

### *Retail space in the year ahead*

In the year ahead, we expect to add +57,000 square feet through the addition of two new trading locations and the relocation of five existing stores. We plan to close 14 low profitability stores occupying 122,000 square feet. The net impact in Retail space is forecast to be a reduction of -65,000 square feet (- 0.8%).

---

[8] Store profitability is defined as profit before central overheads and is expressed as a percentage of VAT inclusive sales.

# RENT COSTS AND LEASE RENEWALS

In the year we renewed 44 leases. Rent on these stores reduced by -30%, with an average lease term of 3.6 years. These reductions allowed us to continue to trade in stores which would otherwise have closed.

| 44 store renewals January 2020 £m | Before renewal | After renewal | |
|---|---|---|---|
| Rental costs[9] | 13.6 | 9.5 | - 30% |
| Concession income | | (0.1) | |
| **Net rent** | 13.6 | 9.4 | - 31% |
| Net rent/sales (VAT inc.) | 10.3% | 7.1% | |
| Rent-free incentive/capital contribution used for store upgrade[10] | | £3.2m | |
| Average lease term[11] | | 3.6 years | |
| Average branch profitability (before central overheads) | | 24% | |

### *Outlook for Lease Renewals in the Year Ahead*

In the year ahead, we expect to negotiate lease renewals on 53 stores and anticipate rent reductions of -40%. This includes eight very short term lease renewals with terms of less than two years at a very low rent. In stores where the lease has been renewed for more than two years, the average rent reduction is expected to be -29%.

After accounting for additional concession income in these stores, net rent is forecast to reduce by -£7.7m per annum (-42%) as a result of lease renewal negotiations. The average lease term is expected to be 3.9 years and the profitability of the stores would be 26% (before central overheads).

| 53 store renewals January 2021 £m | Before renewal | After renewal | |
|---|---|---|---|
| Rental costs[12] | 18.5 | 11.0 | - 40% |
| Concession income | | (0.2) | |
| **Net rent** | 18.5 | 10.8 | - 42% |
| Net rent/sales (VAT inc.) | 11.1% | 6.5% | |
| Rent-free incentive/capital contribution used for store upgrade[10] | | £4.0m | |
| Average lease term[11] | | 3.9 years | |
| Average branch profitability (before central overheads) | | 26% | |

[9] Annualised rental costs including 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 -29%.
[10] This is a cash contribution or rent-free period given by the landlord spent on upgrading the store.
[11] Average lease term shown is to the earlier of the lease end or break clause.
[12] Excluding the release of surplus capital contributions rent is forecast to decline by -40%.

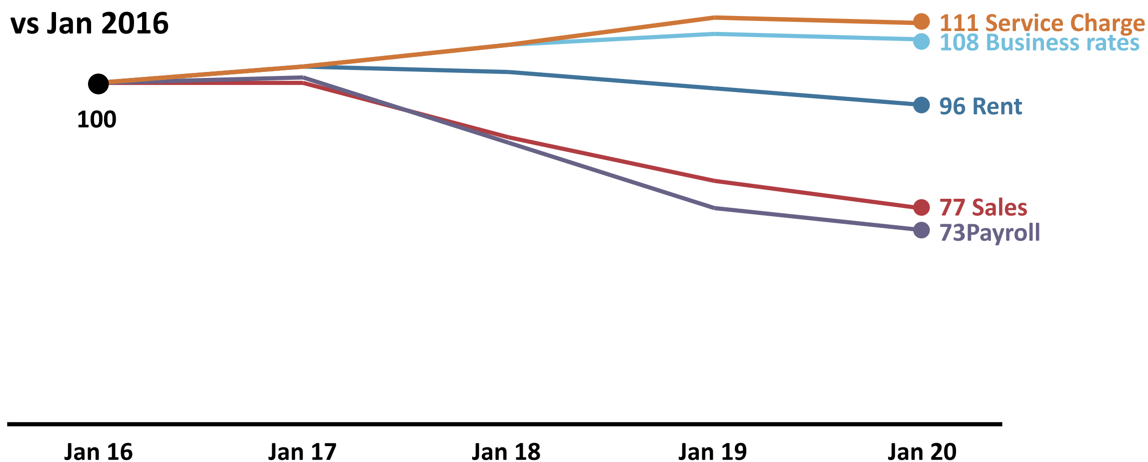
### *Lease Commitments and Portfolio Profitability*

Fifty per cent of our leases (by value) will expire or break within 4.8 years and 81% within the next 10 years. The table below summarises our net store profitability (before central overheads) by profitability band as at January 2020. As shown, 98% of Retail's turnover is profitable and 91% is achieving at least 10% profit. N.B. This profitability is based on our January guidance and does not reflect the effect of lost sales resulting from coronavirus.

| Store profitability | % of turnover |
|---|---|
| >20% | 58% |
| >15% | 81% |
| >10% | 91% |
| >5% | 97% |
| >0% | 98% |

### *Long Term View of Retail Sales and Costs*

The graph below indexes Retail sales[13] and costs from January 2016 to January 2020. This demonstrates the improvements we have made in reducing payroll costs as well as the challenges that remain to current levels of rents, rates and service charges.




[13] Annualised sales of Mainline store only, at the end of each year.

## RETAIL STORES IN THE NEXT ONLINE PLATFORM

Our stores remain an important part of our Online business in the UK. UK Online customers collect nearly 50% of their orders from and bring over 80% of their returns to our stores. Our focus for our stores for the year ahead is three-fold:

- The continued improvement to the **systems** and procedures we use to ensure customer collections are quick, accurate and efficient.
- The continued improvement in the **speed and quality** of Online returns processing to maximise their availability for resale.
- Increasing the amount of **Online work** we do in our stores in relation to making returns customer-ready and fit for resale before they leave the store. This has three advantages: (1) it reduces the pressure on staffing levels in our warehouses at peak times, (2) increases the speed at which returns become available for resale and (3) helps improve store productivity through making use of contracted hours at quieter times of the day.

*NEXT, Bicester*

# NEXT FINANCE

## NEXT FINANCE SALES AND PROFIT

| £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| *Note of credit sales (VAT ex.)* | *1,747.6* | *1,688.8* | *+3.5%* |
| Interest income | 268.7 | 250.3 | +7.3% |
| Bad debt charge | (43.3) | (52.1) | - 16.9% |
| Overheads | (42.4) | (36.9) | +15.0% |
| **Profit before cost of funding** | **183.0** | **161.3** | **+13.4%** |
| Cost of funding[14] | (36.3) | (34.0) | +6.4% |
| **Net profit** | **146.7** | **127.3** | **+15.3%** |
| Average debtor balance | £1,185m | £1,140m | +4.0% |
| ROCE (after cost of funding) | 12.4% | 11.2% | |

NEXT Finance has performed well in the year. Interest income was up +7.3% on last year and net profit was up +15.3%.

Growth in interest income was driven by a combination of increased credit sales and an increase in APR actioned in November 2018. Underlying credit sales grew by +3.5%, marginally ahead of the +2.5% growth in credit customer base. We believe that credit sales per customer grew mainly as a result of the continued increase in the products available on our website.

## CREDIT CUSTOMERS

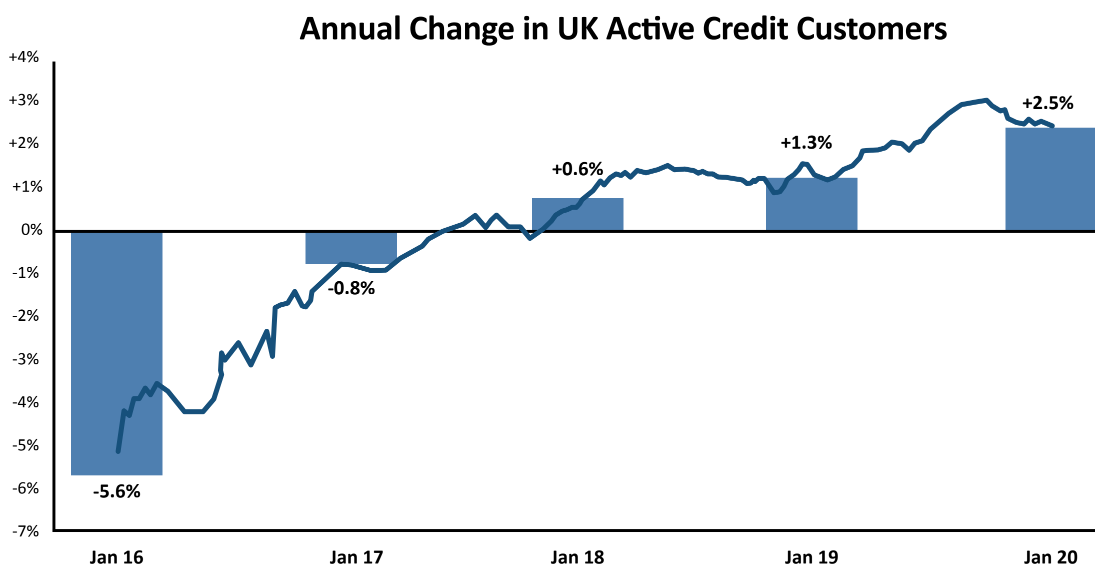
Active[15] credit customers closed the year up +2.5% on last year. Total credit sales per customer (including interest) were up +1.2%.

| Credit customers ('000) | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Opening actives | 2,578 | 2,545 | +1.3% |
| Average actives | 2,582 | 2,524 | +2.3% |
| Closing actives | 2,643 | 2,578 | +2.5% |
| *Credit sales per average active (£ VAT Ex)* | *£677* | *£669* | *+1.2%* |

### *Credit Customer Growth Drivers*

Last year was our third consecutive year of growth in closing active customers and demonstrates the effects of the improvements we have made to our credit offers, marketing and account services. The five year trend is shown in the following chart.

[14] Cost of funding has been restated for January 2019 to reflect the new debt to equity ratio. See page 32.
[15] Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.




We believe the following initiatives have driven the increase in recruitment of new customers this year:

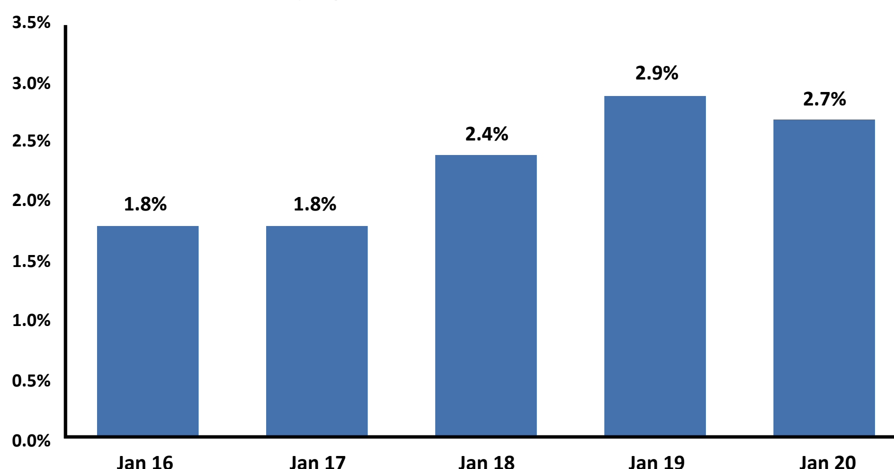
- **Investment in new credit scoring techniques and software**, which has allowed us to accept more applicants without lowering our acceptance criteria
- **Improved Online marketing**, for example using personalised banner advertising on our homepage

## BAD DEBT CHARGE

The bad debt charge in the year was £43m, which was £9m lower than last year. This was partly due to an over provision we made last year for doubtful debts. We subsequently recovered these debts, which resulted in a release of the provision this year. The underlying bad debt charge is set out below:

| £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Bad debt charge | 43.3 | 52.1 | - 16.9% |
| Adjusted for provision release | +3.4 | - 3.4 | |
| **Underlying bad debt charge** | **46.7** | **48.7** | **- 4.1%** |
| Underlying bad debt charge as a % of credit sales | 2.7% | 2.9% | |

The underlying bad debt charge as a percentage of credit sales reduced in the year from 2.9% to 2.7%. As seen in the following chart, we started to experience an increase in bad debt in 2017/18. In January 2019 we made two changes to our lending criteria: (1) we reduced the amount of credit limit increases and (2) we increased the time required between successive increases.




Following the credit limit restrictions, we have seen a reduction in the average credit limit, customer balance and debtor days (the average number of days a customer takes to pay down their balance).

| Key metrics | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Average credit limit £ | 4,118 | 4,290 | - 4.0% |
| Average balance £ | 532 | 533 | - 0.1% |
| Average debtor days | 225 | 233 | - 3.4% |

## FINANCE OVERHEADS

Overheads increased to £42m, up +15%. Costs directly related to the Finance business (£17m) grew slightly faster than sales (+12%) due to investment in our credit systems and call centre operations. Following a review of central overheads, we have increased the cost allocation to the Finance business by +17% and now recharge £25m.

## FINANCE BUSINESS BALANCE SHEET AND COST OF FUNDING

In our Half Year Results, we outlined our approach to funding the Finance business. We aim to fund any increases in customer net receivables with 15% equity and 85% debt. So for every £100 of additional receivables we own, we would expect to take on an additional £85 of financial debt. It is worth stressing that net receivables are calculated *after* providing for bad debt. So to report £100 of receivables on our balance sheet we would need to be owed £107 (that has not defaulted).

We have restated last year's cost of funding on the same basis and the calculation of the cost of funding is set out below. The average interest rate increased by +0.1% to 3.6% as a result of the issuance of a new bond in April 2019.

| Cost of funding calculation | Jan 2020 | Restated Jan 2019 | As reported Jan 2019 |
|---|---|---|---|
| Average next**pay** receivables | £1,185m | £1,140m | £1,140m |
| Debt funding % | 85% | 85% | 100% |
| next**pay receivables funded by debt** | **£1,008m** | **£969m** | **£1,140m** |
| Annual interest rate % | 3.6% | 3.5% | 3.5% |
| **Cost of funding for 12 months** | **£36.3m** | **£34.0m** | **£40.1m** |

# OTHER BUSINESS ACTIVITY

## NEXT SOURCING

NEXT Sourcing (NS) is our internal sourcing agent, which procures around 38% of NEXT branded product. Profit in the year ended January 2020 increased by +£2.4m to £32m. The table below sets out the performance of the business in Pounds and in Dollars.

Sales in Dollars were down -5% due to lower NEXT purchases. Profit in Dollars was up +4.1% due primarily to overhead savings, with lower sales being offset by improved margin.

| | Jan 2020 £m | Jan 2019 £m | | Jan 2020 USD m | Jan 2019 USD m | |
|---|---|---|---|---|---|---|
| Sales (mainly inter-company) | 543.0 | 550.0 | - 1.3% | 695.1 | 731.5 | - 5.0% |
| **Operating profit** | **32.0** | **29.6** | **+8.2%** | **41.0** | **39.4** | **+4.1%** |
| **Net margin** | **5.9%** | **5.4%** | | **5.9%** | **5.4%** | |
| Exchange rate | 1.28 | 1.33 | | | | |

## LIPSY

Lipsy is a wholly owned subsidiary, based in London, that sells women's fashion brands including Lipsy's own brand and over 140 third-party brands. In July 2019, Lipsy acquired Fabled by Marie Claire, which significantly increased the Group's offer of Branded Beauty products.

Sales achieved through NEXT's stores and websites are reported by NEXT Retail and Online respectively. Online, UK sales are reported within LABEL and non-UK sales are reported within Overseas. The table below sets out Lipsy's total sales performance by channel and operating profit.

| £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Sales through NEXT websites: Online clothing | 113.8 | 116.7 | - 2.5% |
| Sales through NEXT websites: Online beauty | 18.5 | 5.2 | +255.5% |
| Sales through NEXT stores | 9.8 | 12.9 | -23.6% |
| **Sales reported through NEXT** | **142.1** | **134.8** | **+5.4%** |
| Other sales (Fabled, wholesale, franchise, third-party websites) | 13.1 | 15.1 | - 13.7% |
| **Total sales** | **155.2** | **149.9** | **+3.5%** |
| **Net operating profit (exc. Lipsy and Fabled acquisition costs)** | **15.9** | **17.1** | **- 7.0%** |
| **Net operating profit (inc. Lipsy and Fabled acquisition costs)** | **13.0** | **11.0** | **+18.0%** |

As detailed in our Half Year Report, we expected clothing sales in the second half of the year to be hampered by range errors and stock shortages. Clothing sales through NEXT Online were down -2.5% on last year and down -24% in Retail stores. With the addition of Beauty, overall sales via NEXT were up +5.4%. Non-NEXT sales were down -13.7%, due to the winding up of the UK wholesale business. Underlying profit (excluding acquisition costs) was £15.9m, down -7% on last year. The reduction in profit was mainly due to the fall in clothing sales and higher levels of surplus stock in the first half of the year. After acquisition costs, net operating profit was £13m, up +18.0%. The increase in post-acquisition profit came as a result of the crystallization and settlement of some management earn out incentives.

## INTERNATIONAL RETAIL AND FRANCHISE STORES

Our franchise partners currently operate 185 stores in 31 countries and at the close of the year we had three owned stores in the Czech Republic. During the year we closed our unprofitable retail operations in Slovakia and Sweden.

Revenue and profit are set out in the table below. Profit has remained flat on declining sales due to the closure of our unprofitable operations.

| £m | Jan 2020 | Jan 2019 | Var % |
|---|---|---|---|
| Franchise income | 52.0 | 52.2 | - 0.3% |
| Own store sales | 4.9 | 10.0 | - 51.7% |
| **Total revenue** | **56.9** | **62.2** | **- 8.6%** |
| **Operating profit** | **6.2** | **6.2** | **- 0.5%** |

## NON-TRADING ACTIVITIES

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

| £m | Jan 2020 | Jan 2019 |
|---|---|---|
| Central costs and employee share schemes | (21.5) | (19.4) |
| Property management | (2.2) | 6.7 |
| Foreign exchange | (1.5) | 1.4 |
| Associates and joint venture | (0.4) | 0.1 |
| **Total** | **(25.6)** | **(11.2)** |

Property profit was £8.9m lower than last year. This was due to a £3.6m increase in provisions made in the year and £5.3m of one-off profits in the prior year. The year ending January 2019 benefited from a profit of £1.4m on two development sites and £3.9m compensation income received upon the early completion of two store leases at the landlords' request.

Foreign exchange movements relate to contracts not eligible for hedge accounting.

## PENSION SCHEME

On the IFRS accounting basis, our defined benefit schemes have moved from £125m surplus at January 2019 to £133m surplus at January 2020. This movement is primarily due to an increase in the value of equity investments, partially offset by an increase in liabilities resulting from a reduction in the discount rate assumption applied to the liabilities.

A full valuation as at 30 September 2019 is currently being undertaken and the discussions between the Company and the Trustee are well advanced. The preliminary results of this valuation showed a small deficit of £12m on the proposed Technical Provisions basis.

# CASH FLOW

Profit in the year before interest, tax, depreciation and amortisation was £896m. Cash flow after non-discretionary outflows of taxation, interest and working capital was £663m. After investing in capital expenditure and paying ordinary dividends, but before financing customer receivables, the Group generated surplus cash of £307m. Total share buybacks in the year to January 2020 were £300m; we purchased 5.4m shares at an average price of £55.83, reducing our shares in issue at the start of the year by 3.9%. The table below summarises our main cash flows in the year ended January 2020 and the prior year.

| £m | Jan 2020 | Jan 2019 |
|---|---|---|
| **Profit before Interest, Tax, Depreciation & Amortisation** | 896 | 884 |
| Interest | (39) | (37) |
| Taxation | (138) | (144) |
| Working capital and other | (56) | (34) |
| **Discretionary cash flow** | **663** | **669** |
| Capital expenditure | (139) | (129) |
| Investment in subsidiary/associate | (3) | (3) |
| Ordinary dividends | (214) | (216) |
| **Surplus cash** | **307** | **321** |
| Financing of additional next**pay** receivables* | (23) | (90) |
| Share buybacks | (300) | (325) |
| **Movement in net debt** | **(16)** | **(94)** |

**85% of movement in Jan 2020, 100% of movement in 2019 (see page 32 for further explanation).*

## INTEREST

Net interest charged in the Income Statement for the year was £44m, an increase of +£5m on the previous year as a result of higher net debt and higher average interest rate following the issue of the new bond in April 2019. As a result of payment timing differences, the interest paid was £39m.

## TAX

Our full year effective tax rate was 18.5%, broadly in line with last year. For the year ahead we have assumed an effective tax rate of 18.5%. This is based on the current UK headline corporate tax rate, adjusted for our overseas business.

In the year ahead, HMRC are accelerating Corporation Tax payments so that the full tax charge is paid in the year in which it is incurred. Previously, half of the tax payment was deferred until the following year. If the Company had achieved its pre-coronavirus central guidance, this change would have resulted in an additional £70m cash outflow to HMRC.

## ORDINARY DIVIDEND

It is our usual practice at this time of the year to propose a final ordinary dividend to be paid at the start of August, subject to approval by shareholders at the Annual General Meeting held in May. However, given the highly unusual circumstances arising from the coronavirus, we believe it is important to maintain flexibility around the timing of a decision to pay this dividend.

So, instead of proposing a final dividend at this time, the Board currently intends to declare a second interim dividend in June. The directors will keep the Group's liquidity position under review over the next few months and determine the quantum and timing of the second interim dividend in the light of the outlook for the Group's balance sheet at that time. Our current plan is to declare an interim dividend of up to 116.5p payable on 3 August, although we may decide to delay this payment by up to three months if we need cash to keep our balance sheet secure through our period of peak borrowings. For further detail see Outlook and Stress Test sections on page 38.

## CAPITAL EXPENDITURE

### *Spend by Category*

| £m | Jan 2021 (e) Current plans | *Jan 2021 (e) Pre-coronavirus* | Jan 2020 | Jan 2019 |
|---|---|---|---|---|
| Retail space expansion | 30 | *32* | 24 | 57 |
| Retail cosmetic/maintenance capex | 5 | *15* | 14 | 12 |
| **Total capex on stores** | **35** | *47* | **38** | **69** |
| Warehouse | 55 | *81* | 87 | 52 |
| Head office infrastructure | 2 | *7* | 5 | 4 |
| Systems | 8 | *10* | 9 | 4 |
| **Total capital expenditure** | **100** | *145* | **139** | **129** |

Capital expenditure in the year ending January 2020 was £139m, £10m higher than the prior year. Warehouse capex was our biggest investment at £87m, a £35m increase on the prior year. This warehouse investment is part of an ongoing expansion programme to increase capacities to support Online sales growth. The £31m reduction in Retail capex is a function of opening fewer new stores; most of the space expansion in the year relates to the re-site of small stores in existing locations to larger sites, typically on improved lease terms. Retail cosmetic and maintenance capex increased by £2m; this is due to the renewal of leases where capital contributions from the landlord are being reinvested in the stores.

### *Capex in the year ahead*

Pre-coronavirus, we had originally planned to spend £145m in the year ahead, but we have scaled this back to £100m by delaying non-essential capex. Our warehouses will again see the largest investment with capital spend of £55m. This includes the extension of bulk storage facilities in our current Online boxed warehouse. We expect to spend £35m on store capex in the year, this includes three large stores which we plan to re-site to new locations.

The systems expenditure of £8m includes projects which update the code that runs three core systems. The systems in question are (1) our web platform (2) our warehouse management systems and (3) our product systems. These projects all aim to deliver improvements to resilience, performance and security along with an improvement in the ease with which they can be developed going forward.

## BOND, BANK FACILITIES AND NET DEBT

During the year we took steps to extend the maturity of our long term debt financing. We successfully issued a £250m six year bond, which matures in August 2025. We initially retained £50m of these bonds which were later issued in August 2019. The value of Sterling bonds outstanding at January 2020 amounted to £1,125m, which compares with £875m at January 2019. In addition, we refinanced our bank facilities, combining two facilities maturing in 2020 and 2021 into a new £450m facility maturing in 2024. Total bank and bond financing amounts to £1.6bn.

Our £325m bond matures in October 2021. It is our intention to refinance this with the issuance of a new bond prior to maturity.

# OUTLOOK FOR SALES AND PROFIT

## APPROACH TO GUIDANCE IN AN UNFORECASTABLE YEAR

### *Uncertainty and Stress Testing*

Uncertainty around the scale, timing and impact of the coronavirus pandemic means it is impossible to give meaningful guidance for profits in the year ahead. Instead, we have given a range of outcomes for the current year for different sales scenarios. The resulting stress test is very useful; it gives a clear picture of the possible effects on our balance sheet and finances and points to the practical steps we can take to ensure that the Company is best placed to cope with all imaginable outcomes.

### *Method*

The method we have used to stress test the business is as follows:

1. Start with our Base Case sales, profits and cash flow guidance *before* taking account of any impact of coronavirus (i.e. based on the forecast given in January)
2. Model varying levels of sales of decline
3. Assess the expected impact on cash flow for each scenario
4. Outline the measures we can take to increase cash retained within the business

### *Conclusion of Stress Test*

The conclusion of our stress test is that the business could sustain the loss of more than £1bn (25%) of annual full price sales, without exceeding our current bond and bank facilities. This accounts for the rates holiday announced by Government but *excludes* any use of Government lending or any measures that may be introduced to help with wages during closure.

## 1. BASE CASE — BEFORE THE CORONAVIRUS IMPACT

### *Base Case — Sales*

The table below sets out our January central guidance for full price sales growth by trading divisions in the year ahead, before the impact from the coronavirus. For comparison, we have also shown the actual sales performance in the year ending January 2020.

| Full price variance on previous year | Base Case guidance 2020/21 (e) | Actual performance in 2019/20 |
|---|---|---|
| Online sales | +10.9% | +11.9% |
| Retail sales (including sales from new space) | - 5.8% | - 4.3% |
| **Product full price sales** | **+3.1%** | **+3.7%** |
| Finance interest income | +1.0% | +7.3% |
| **Total full price sales including interest income** | **+3.0%** | **+4.0%** |

### *Base Case Profits and Earnings Per Share (52 Week Basis)*

In the Base Case we estimated that Group profit before tax would be around £734m, up +0.8% on the prior year. Our January central guidance for sales, profits and EPS is set out in the table below.

| Full year estimate to January 2021 | Base case guidance |
|---|---|
| Total full price sales versus 2019/20 | +3.0% |
| Group profit before tax | £734m |
| Group profit before tax versus 2019/20 | +0.8%[16] |
| **Earnings Per Share growth versus 2019/20** | **+3.3%[16]** |

The guidance above is based on a 52 week trading period. However, the financial year ahead will be a 53 week period to 30 January 2021. We had expected the additional week of sales to generate profit of around £13m.

[16] In our January Trading Statement, we reported profit guidance of £734m, which would be up +1% on the prior year, and EPS growth of +3.5%. Profit in the year ended January 2020 finished slightly ahead of our forecast so profit growth would now be up +0.8% with EPS up +3.3%.

## 2. MODELLING SALES AND COST IMPACT OF CORONAVIRUS

### *Supply Chain Effects*

When the coronavirus outbreak started, we assumed that the main impact would be on our supply chain. There has been some effect on supply, though as yet the only meaningful delays have come from suppliers based in mainland China. Mainland China accounts for 27% of our supply base (excluding third-party brands). This number increases to 47% once you account for goods manufactured outside China but made with Chinese fabric and trims (buttons, zips etc.).

So far, half the goods we were expecting from China in the month of February are running late. Most of our factories in China have now returned to work and we expect the supply of stock from China to improve as the year progresses. As yet we do not know what impact the virus will have on our other key territories, though at present it appears that the virus is not having a significant impact on warmer territories. The table below sets out the percentage of stock delivered from our most important territories:

| **Territory** | **Supply %<br>Year ended Jan 2020** |
|---|---:|
| Mainland China | 27% |
| Bangladesh | 24% |
| India | 12% |
| Sri Lanka | 7% |
| Cambodia | 6% |
| Turkey | 6% |
| Vietnam | 5% |
| Myanmar | 4% |
| Pakistan | 4% |
| Portugal and North Africa | 2% |

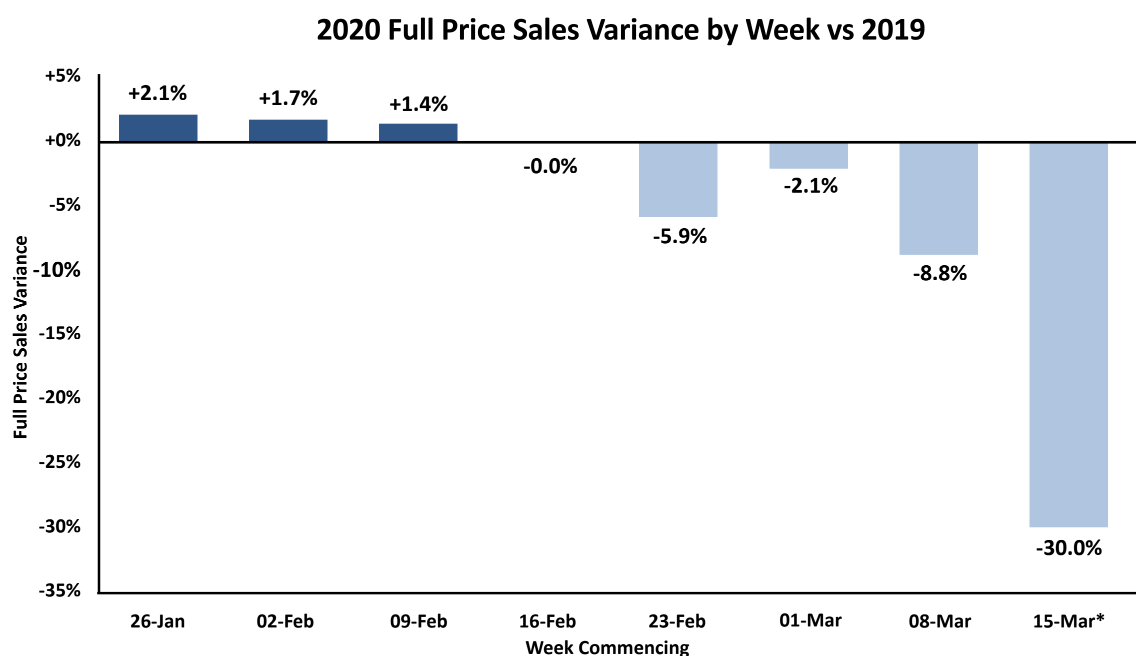
In reality, the threat posed to the supply of goods pales into insignificance when compared with the potential impact on demand. Indeed, the inability of some suppliers to make and deliver the stock we have ordered may help manage stock levels at a time when we are certain to have higher than normal levels of surplus stock.

## *Sales Impact to Date*

The graph and table below show our sales growth in Retail stores and Online versus last year for the year to date. The last column on the right shows sales up to the evening of Tuesday 17 March. The year-on-year performance for mid-February is distorted by the fact that this year the third and fourth weeks were adversely affected by flooding.

| Week commencing | 26 Jan | 02 Feb | 09 Feb | 16 Feb | 23 Feb | 01 Mar | 08 Mar | 15 Mar* |
|---|---|---|---|---|---|---|---|---|
| Online (including overseas) | +7.4% | +7.5% | +11.2% | +6.2% | +2.3% | +3.9% | - 2.0% | - 25.0% |
| Retail | - 3.9% | - 4.6% | - 9.6% | - 6.9% | - 12.9% | - 12.4% | - 19.7% | - 46.0% |
| **Brand (including interest income)** | **+2.1%** | **+1.7%** | **+1.4%** | **- 0.0%** | **- 5.9%** | **- 2.1%** | **- 8.8%** | **- 30.0%** |

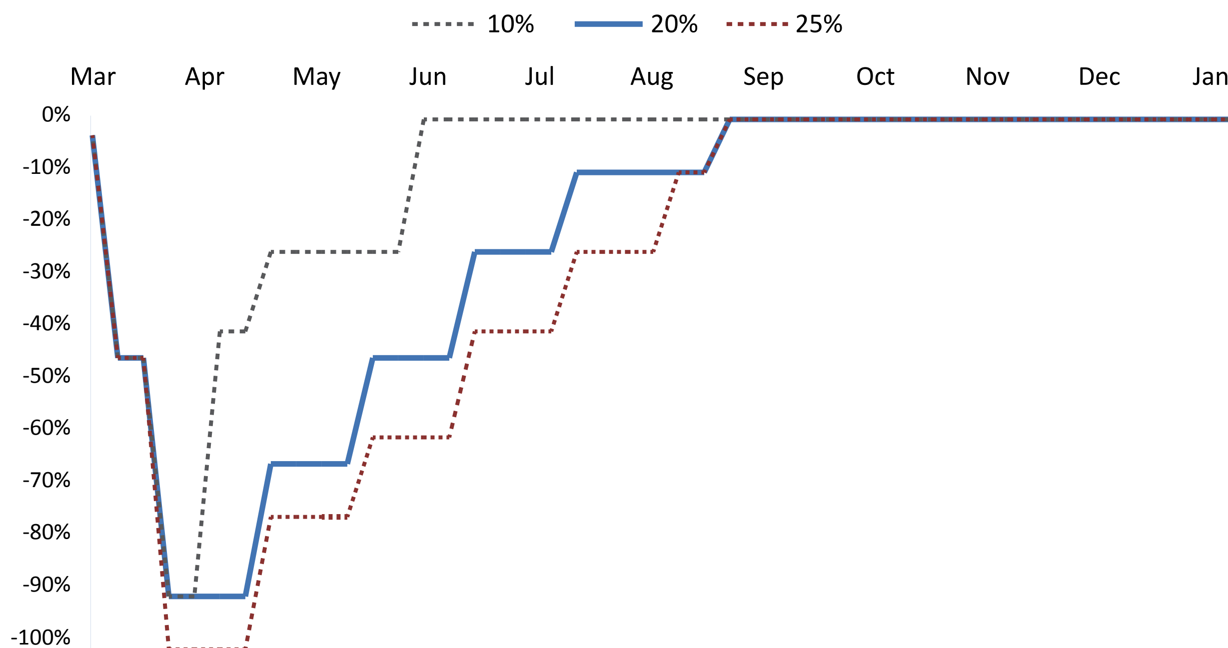
**Part week to Tuesday 17 March*



## *Sales Scenarios*

We have modelled three scenarios for full price sales as set out below. The first scenario assumes a shorter pandemic duration. The second and third are spread out over 24 weeks. It is important to stress that no one knows, and the phasing shown below is pure guesswork. Our gut feeling is that the -10% scenario is too optimistic, and we believe the -25% scenario is overly pessimistic. The week by week progression does not make much difference to our cash resources and the number to focus on is the total quantum of lost sales rather than the timing.

| Full price sales versus last year | Scenario -10% | Scenario -20% | Scenario -25% |
|---|---|---|---|
| Weeks 1 & 2 | - 45% | - 45% | - 45% |
| Weeks 3 & 4 | - 90% | - 90% | - 100% |
| Weeks 5 & 6 | - 45% | - 90% | - 100% |
| Weeks 7 & 8 | - 25% | - 65% | - 75% |
| Weeks 9 & 10 | - 25% | - 65% | - 75% |
| Weeks 11 & 12 | - 25% | - 45% | - 60% |
| Weeks 13 & 14 | - | - 45% | - 60% |
| Weeks 15 & 16 | - | - 25% | - 40% |
| Weeks 17 & 18 | - | - 25% | - 40% |
| Weeks 19 & 20 | - | - 10% | - 25% |
| Weeks 21 & 22 | - | - 10% | - 25% |
| Weeks 23 & 24 | - | - 10% | - 10% |
| **Decline for affected period** | **- 42%** | **- 45%** | **- 53%** |
| Rest of year | 0% | 0% | 0% |
| **Full year** | **- 10%** | **- 20%** | **- 25%** |



## *Cost Assumptions*

The paragraphs below set out the way in which we have modelled the major heads of cost.

**Stock**

We have assumed that we can cancel out of somewhere between 10% and 20% of the lost sales, saving the cost value of the stock. The later in the year the sales are lost, the greater our opportunity to cancel orders.

**Clearance rates**

We have assumed that we will not achieve any additional markdown sales by clearing additional surplus stock. This is potentially overly conservative.

**Variable costs**

As sales reduce, the demand for labour in our warehouses, stores and call centres would reduce. We have assumed that for warehouses and call centres, costs are 20% variable. So if Online sales drop by -10%, costs would only fall by -2%.

Retail store wages are assumed to be 30% variable to Retail sales. We believe this can be achieved mainly through not requiring staff to work more than their contracted hours and, in the short term, we would not replace leavers. In the event of a prolonged closure period, and in the absence of any Government assistance, we may have to take more radical action on wages, but we have not factored this into the model.

Online distribution costs, many of which are contracted out to a third-party on a per parcel basis, are assumed to be 65% variable.

**Head office**

Most Head Office functions are vital to the long term future of the business and we have assumed that wages remain broadly fixed.

**Bad debt**

We have not assumed any change in bad debt rates or payment profile though in reality payments may be a little slower than expected and bad debt may increase.

**Rents**

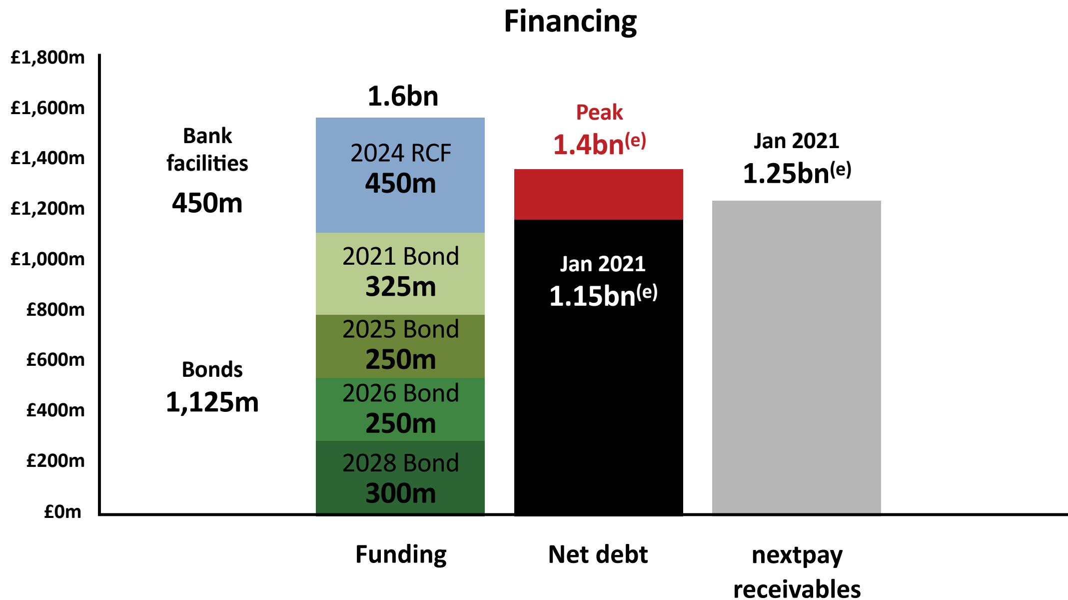
We have assumed that rents and all other fixed costs are not variable.

# 3. CASH FLOW MODEL

## *Base Case Finances*

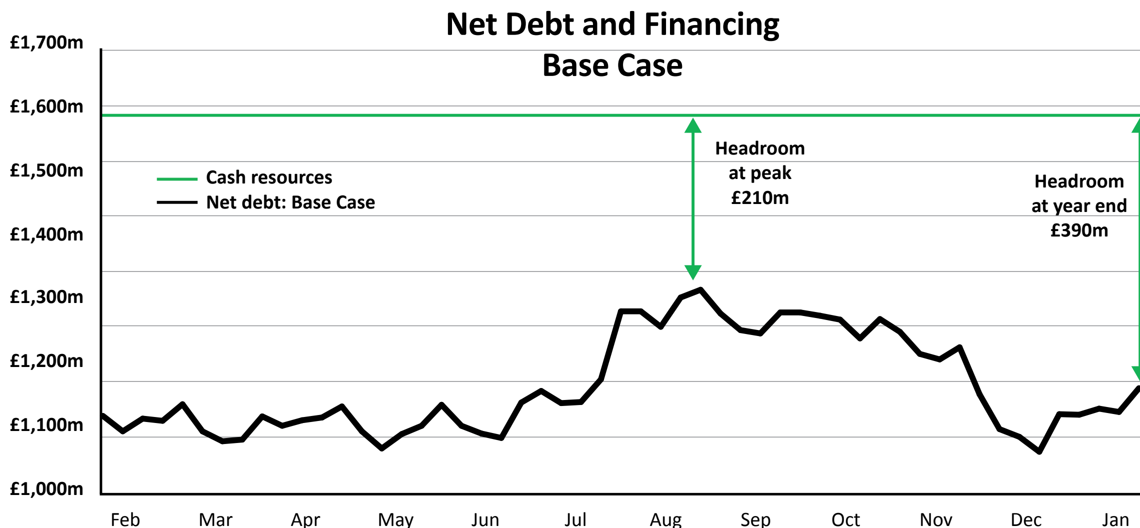
NEXT has long term bond and debt facilities of £1.6bn; all of these facilities are secured for more than a year. Peak debt was forecast to be £1.4bn in August.

The bar chart below sets out our bond and bank facilities in the leftmost bar consisting of £1,125m of bonds and a £450m bank facility maturing in 2024. The central bar shows our Base Case year end and peak borrowing requirements. The right-hand bar demonstrates that year end net debt would normally be more than matched by our wholly owned consumer receivables book.




## *Base Case Cash Flow Model*

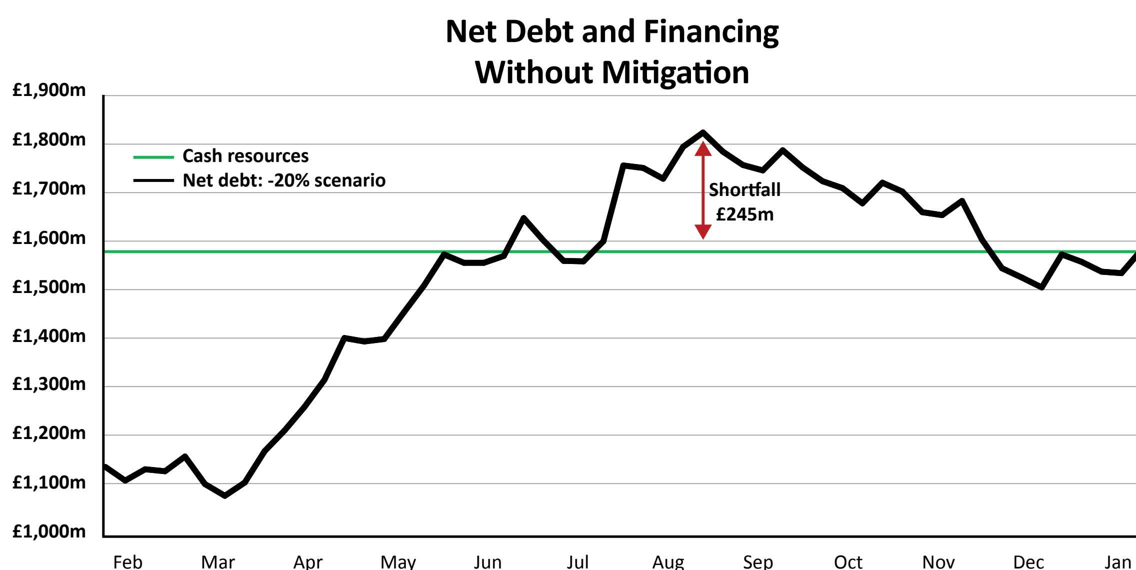
The graph below shows our Base Case cash flow for the year ahead, relating to our January guidance. This model assumes, amongst other things, that we buy back £280m of shares over the course of the year. The black line shows our expected net debt position throughout the year, the green line shows the level of our cash resources. As can be seen, in a normal year we would expect to keep headroom of around £210m at peak financing in late August.



### *Cash Flow Without Mitigating Action*

The table below sets out the cash flow impact of lost sales after cost saving measures but without the Company taking any further corporate action to conserve cash (such as cancelling buybacks). For completeness, the EBITDA and Profit before tax the Company would generate is shown in the last two lines of the table.

| £m (e) | Scenario -10% | Scenario -20% | Scenario -25% |
|---|---|---|---|
| Lost full price sales (VAT ex) | - 445 | - 820 | - 1,010 |
| Cash from additional clearance sales | +0 | +0 | +0 |
| Operational cost savings | +55 | +80 | +90 |
| Reduced stock purchases | +15 | +50 | +65 |
| Inflow from reduction in Online lending | +55 | +120 | +150 |
| Corporation tax saving and rates holiday | +130 | +180 | +215 |
| **Cash cost of lost sales** | **- 190** | **- 390** | **- 490** |
| Implied Group EBITDA[17] | £665m | £375m | £230m |
| Profit before tax[17] | £490m | £200m | £55m |




## 4. MITIGATION

The following actions can be taken to increase cash resources in the current financial year.

### *Level 1 Measures: Share Buybacks, ESOT and Capex*

Suspending buybacks, employee share option trust (ESOT) purchases and deferring non-essential capital expenditure. These actions will have no or little impact on the short term operations of the business.

### *Level 2 Measures: Leasebacks, Securitisation and ESOT Loan Recall*

We believe we can leaseback high quality assets and recall part of a loan from the Company which has been advanced to the ESOT and securitise some of our customer receivables. These actions have little impact on the operations of the business but are mildly earnings dilutive in future years as, for example, the cost of rent on a leased-back building is likely to be higher than prevailing interest rates on the proceeds of sale.

[17] Profit before tax includes the benefit of the business rates holiday.

### *Level 3 Measures: Delay August Dividend*

We could choose to delay the payment of our usual August dividend which comes just before our peak cash requirement. This would only be necessary in the event we saw more than a -20% reduction in sales.

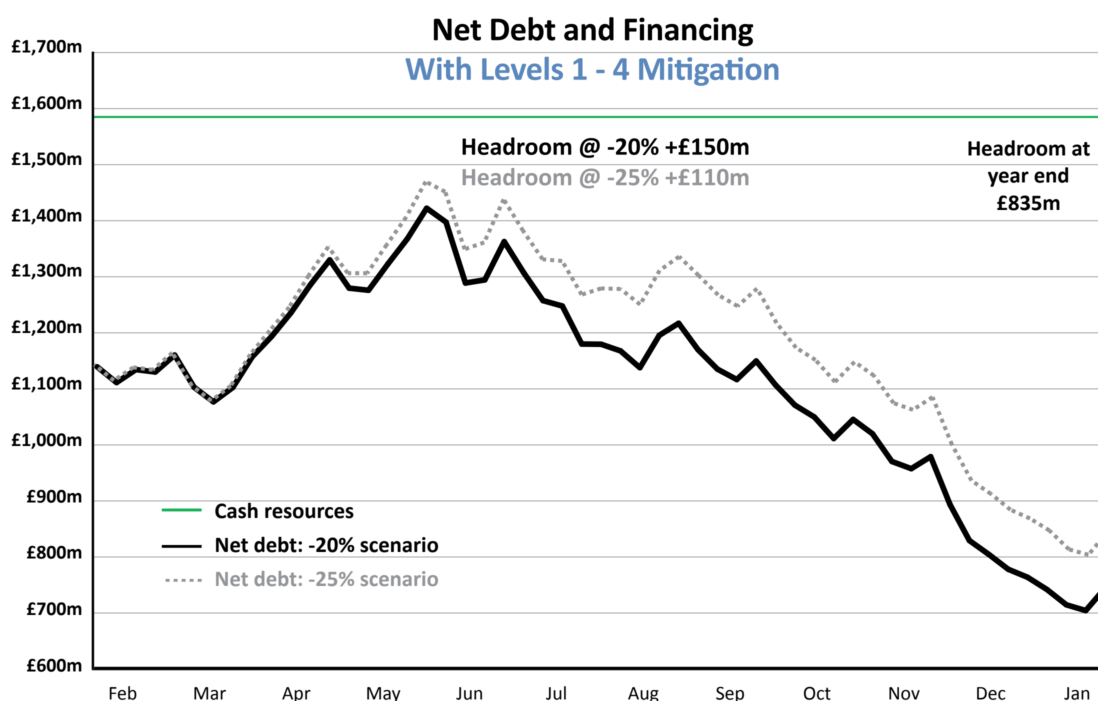
At this time of year (March) we would normally propose a final dividend and we had planned to announce a return of 116.5p per share for payment in August. Instead of proposing a final dividend now (which would commit us to the payment), our current intention is to announce a second interim dividend (of up to 116.5p) at the end of June, for payment at some point between August and October, in the event that (1) the worst of the virus has passed by that time and (2) that our finances permit the payment.

### *Level 4 Measure: Suspend Dividends*

This would be a last resort but, in the event the business needed to conserve cash, we could suspend both the August 2020 and January 2021 dividends which would retain £220m in the Group.

### *Impact of Levels 1-4 Mitigation*

The chart below shows our cash requirements and resources in the event that we lose -20% (£820m) of sales and take *all* levels of mitigation outlined above. The dotted line shows the scenario where sales are down -25%. As can be seen in the -20% scenario, our minimum headroom is £150m and cash resources at the year-end would rise to £835m. Even in the -25% scenario, our minimum headroom would still be £110m.




### *Further Measures Not Included in the Model*

We have two further significant measures that would help us to increase our cash headroom in May. We could (1) bring forward our Summer End of Season Sale and (2) push back deliveries of stock into June. We estimate that the combination of these two options would increase our headroom by at least a further £100m at that time.

The following table sets out the measures we believe we can take and an estimate of the resulting cash retained at the end of August and Year End. The final line of the table shows the headroom the measures would generate at year end in the -20% scenario.

It is worth noting that, normally, our peak cash requirement would be in August, however, if all measures are undertaken the peak cash requirement moves to the end of May as shown in the previous graph.

| ACTION | DESCRIPTION | Value at August £m | Value at year end £m |
|---|---|---|---|
| Suspend buybacks | We expected to spend £280m on buybacks and have spent c.£20m to date. Further buybacks are suspended until the situation stabilises | +148 | +260 |
| ESOT purchases | We had expected to spend £40m in the current year on buying shares into our Employee share option trust. | +17 | +40 |
| Defer capex | We had planned to spend £145m of which we have not committed to £70m. We intend to delay all non-essential capex (for example maintenance and refit capex). We expect to save £45m on capex. | +20 | +45 |
| **TOTAL LEVEL 1** | | **+185** | **+345** |
| Part securitise Online debt | Within the terms of our bonds we can securitise up to £100m of our Online receivables. | +100 | +100 |
| Lease backs | We have some freehold warehousing and other property which could be leased back. We estimate we could realise £100m from these sales. | +100 | +100 |
| ESOT loan recall | This involves our ESOT selling shares they do not currently need to cover employee options (at today's share price) and repaying part of the loan from the NEXT Group used to buy these shares. We estimate that this would generate cash of at least £70m. | +70 | +70 |
| **TOTAL LEVEL 1 & 2** | | **+455** | **+615** |
| **Delay dividend** | This would involve delaying our usual August dividend to October. | +147 | - |
| **TOTAL LEVEL 1, 2 & 3** | | **+602** | **+615** |
| Suspend dividends | | | +220 |
| **TOTAL LEVEL 1, 2, 3 & 4** | | **+602** | **+835** |
| Cash impact of lost sales and rates holiday (-20% scenario) | | | - 390 |
| Base case headroom | | | +390 |
| **Headroom generated by all measures assuming -20% scenario** | | | **+835** |

Strategic Report

Governance

Financial Statements

Shareholder Information

### *Further Increasing our Financing Resources*

We are in advanced discussions with our banks to increase our facilities by £200m to provide further flexibility and headroom during these uncertain times. These discussions are progressing well, and we expect the new facility to be in place within the next month.

### *Revolving Credit Facility Covenants*

Under the scenario where full price sales fall by -20%, there is a risk that we may breach the Group's bank covenants during the current financial year. This would be caused by a temporary reduction in profits, however peak borrowings would remain comfortably within our total facilities.

We have had positive discussions with all our lending banks about this potential scenario. Our discussions have been encouraging and early indications suggest they would agree to a covenant waiver during the financial period to the end of January 2021.

### *Government Support for Businesses*

We believe that Government, acting as lender and employer of last resort, can make an enormous difference to the preservation of retail jobs and businesses during the crisis. The scale and speed of the actions announced on Tuesday are very much welcomed. We believe that the availability of a Government loan facility will do much to stabilise businesses through the crisis.

At present (as can be seen from our modelling) we do not believe that we would need to draw on Government loan facilities, but they are hugely comforting, not least because they will help prevent business collapses and unemployment elsewhere in the economy.

The Government has announced and is considering further measures to assist industry at this exceptional time. For information, If NEXT were able to defer payment of National Insurance, Corporation Tax, and VAT for the rest of this financial year, it would generate an additional cash headroom of £240m at the year end.

#### *Employment and Salaries*

We would recommend that the Government urgently put in place measures to support the incomes of those who work in shops that are forced to close. We understand the immense pressure the Treasury are under at this time but would emphasise that clarity and speed on this issue would be useful for retailers and employees alike.

## SUMMARY

Our industry is facing a crisis that is unprecedented in living memory, but we believe that our balance sheet and margins mean that we can weather the storm.

The crisis will pass at some point. At that time, it will be the work we do to move the business forward that will determine our future success. So our priorities are clear: (1) to do all we can to keep our workplaces and shops as safe as possible for customers and staff, (2) securing the cash resources of the business and (3) continue to develop our **Online platform** and **product ranges** throughout the next six months.

Our first quarter Trading Statement will cover the thirteen weeks to 25 April 2020 and is scheduled for Wednesday 29 April 2020.

**Lord Wolfson of Aspley Guise**
Chief Executive
19 March 2020

# APPENDIX 1 – STATUTORY SALES AND LEASES

## Overview

The financial information presented in pages 5 to 49 is used by the Chief Operating Decision Maker (CODM) and management in assessing business performance against its targets and strategy. It is also the financial information used to inform business decisions and investment appraisals. Having been prepared on a basis that is consistent with prior years and current profit guidance, it is management's view that this provides both a useful and necessary basis for understanding the Group's results.

Management will continue to monitor and assess the financial information it presents so that it remains both useful and necessary to understand the Group's performance.

For statutory reporting purposes, changes are made in respect of revenue and accounting for leases.

A summary of the changes and their impact is set out below. Further detail on IFRS 16 "Leases'' and its impact on the statutory accounts is provided in Note 32 of the Financial Statements.

## Revenue

Revenue presented in pages 5 to 49 is based on "Total sales" excluding VAT. "Total sales" represent VAT exclusive sales, including the full value of commission based sales and interest income. For statutory reporting purposes two adjustments are made to derive statutory revenue:

- Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. This adjustment reduces the value of sales recognised for statutory reporting purposes by £137.7m for the period to January 2020 (2019: £93.8m)
- Customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances are included in statutory revenue (these amounts being reclassified from cost of sales). This adjustment increases the value of sales recognised for statutory reporting purposes by £42.1m for the period to January 2020 (2019: £40.3m)

As a result, Total Sales for the period to January 2020 of £4,361.8m (2019: £4,220.9m) are recognised for statutory purposes as revenue of £4,266.2m (2019: £4,167.4m). A corresponding amount has been recognised in cost of sales.

**This change has no impact on profit before taxation, profit after taxation, Earnings Per Share or cash flow.**

## Leases (IFRS 16)

The accounting for leases used within pages 5 to 49 do not reflect the requirements of IFRS 16, *"Leases''*. Instead, operating leases are held off balance sheet with the lease costs recognised on a straight-line basis over the term of the lease. This is consistent with how leases were recognised on a statutory basis in prior years.

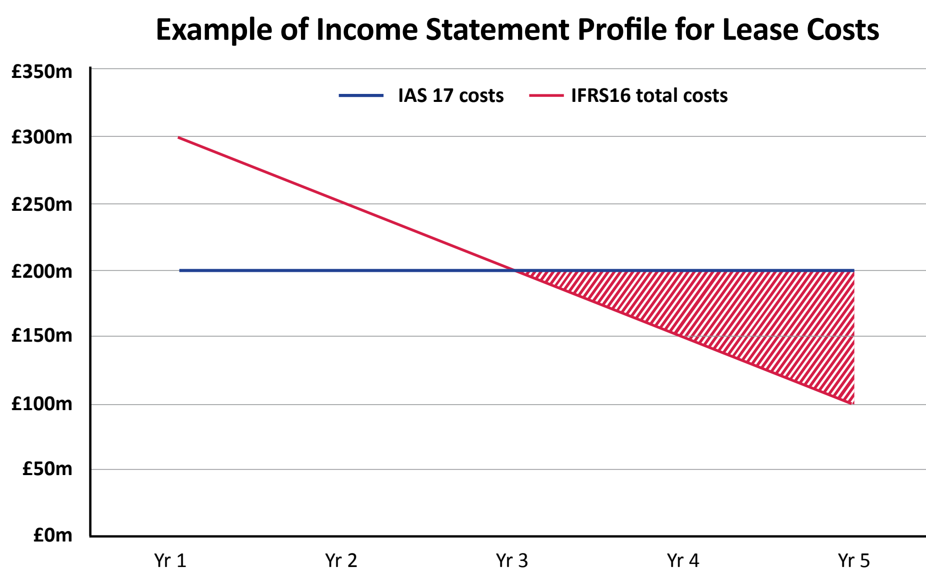
In contrast, IFRS 16 applies a single 'on balance sheet' approach to lease accounting. This is primarily achieved by:

- Recognising a right-of-use asset which represents the lessee's contractual right to use the leased asset for the lease term
- Recognising a lease liability which reflects the lessee's obligation to make payments under the terms of the lease

In this way leases previously classified as operating leases have now been included in the Balance Sheet.

Due to the changes on the Balance Sheet, the nature and timing of costs being recognised in the Income Statement also change, with depreciation being recognised on the right-of-use asset and finance costs being recognised on the lease liability. The rental costs recognised under the previous accounting standard for leases, IAS 17, are then excluded.

The impact of this change, on the timing of costs being recognised, is shown in the graph below. Note, this graph is for illustrative purposes only.




Under IFRS 16 depreciation costs on the right-of-use asset remain consistent during the lease as they are recognised on a straight-line basis.

However, finance costs recognised on a lease are typically higher in the earlier years due to the finance costs associated with a higher lease liability. This is evident in years one to three in the above graph where the total IFRS 16 cost is higher than its IAS 17 equivalent.

As the lease liability is repaid the associated finance costs reduce year-on-year. This is evident in years three to five in the above graph.

In contrast, under the previous accounting standard, the entire lease cost would be recognised on a straight-line basis over the lease term as represented by the horizontal line in the graph.

## *IFRS 16 – Full retrospective application*

NEXT has applied the requirements of IFRS 16 on a fully retrospective basis. This means that NEXT has had to recalculate its IFRS 16 position as though it had always applied IFRS 16.

When viewed across its entire lease population, the NEXT lease portfolio is relatively mature. The retrospective application of IFRS 16 has therefore resulted in a reduction in reserves of £196.3m as at January 2018 (see note 32 of the Financial Statements). This reduction in reserves represents the costs that would have been recognised at an earlier point in the lease term under IFRS 16 compared to the previous standard, IAS 17.

**While this reduction in reserves has reduced the Net Assets of NEXT it will not cause any hindrance to the distribution of dividends to shareholders.**

## *Income Statement*

Having recognised a significant portion of the lease costs directly in reserves it is expected that, where the lease portfolio is stable, the NEXT Income Statement will benefit from the recognition of lower lease costs going forward. This is evident in both the January 2020 and January 2019 Income Statement, restated for IFRS 16, see below.

| £m | Jan 2020 excluding IFRS 16 | IFRS 16 impact | Jan 2020 including IFRS 16 |
|---|---|---|---|
| **Profit before taxation** | **728.5** | **20.0** | **748.5** |
| Taxation | (134.6) | (3.7) | (138.3) |
| **Profit after taxation** | **593.9** | **16.3** | **610.2** |
| **Earnings Per Share** | **459.8p** | | **472.4p** |

| £m | Jan 2019 excluding IFRS 16 | IFRS 16 impact | Jan 2019 including IFRS 16 |
|---|---|---|---|
| **Profit before taxation** | **722.9** | **10.7** | **733.6** |
| Taxation | (132.5) | (2.0) | (134.5) |
| **Profit after taxation** | **590.4** | **8.7** | **599.1** |
| **Earnings Per Share** | **435.3p** | | **441.7p** |

The higher profit before tax under IFRS 16 is consistent with the illustrative profile on lease costs shown on page 51 and the impact of full retrospective application of IFRS 16.

It is important to stress that while the timing and nature of costs under IFRS 16 differ to those reported under IAS 17, over the course of the lease term the overall costs remain the same.

Hence the reduction to reserves of £196.3m, and the subsequent higher profit before tax in the periods to January 2020 and January 2019, relate primarily to the timing of costs being recognised and not cash savings or improved performance under the lease contracts.

**In order to present financial information on a basis consistent with how the CODM and management run the business, and to assist readers in understanding the underlying business performance, pages 5 to 49 of this report do not include the impact of IFRS 16.**

## *Cash Flow*

While IFRS 16 has, from a statutory reporting perspective, had a significant impact on the Balance Sheet and Income Statement it is important to emphasize that it has had no impact on the cash generated by the business.

As disclosed in the Group accounting policies in the Financial Statements, the impact of IFRS 16 on the cash flow is limited to changes in the presentation of where cash flows are reported. A summary of the changes for January 2020 is presented below which also demonstrates that the net cash position does not change.

Consequently, surplus cash as presented on page 35 remains an APM used by the business in its management of cash flows.

## *Cash Flow Statement*

| £m | Jan 2020 excluding IFRS 16 | IFRS 16 impact | Jan 2020 including IFRS 16 |
|---|---|---|---|
| Operating profit | **772.1** | **81.8** | **853.9** |
| Non-cash items and movement in working capital | (69.3) | 142.6 | 73.3 |
| Net Cash from investing activities | (139.1) | 0.0 | (139.1) |
| New cash from financing activities | **(544.8)** | **(224.4)** | **(769.2)** |
| **Closing cash** | **18.9** | **-** | **18.9** |

## *Net Debt*

Net debt at January 2020, excluding leases, was £1,112.1m. From a statutory reporting perspective, the adoption of IFRS 16 results in the recognition of lease debt on the Balance Sheet of £1,251.0m (2019: £1,366.3m).

| £m | Jan 2020 | Jan 2019 | |
|---|---|---|---|
| **Cash and cash equivalents** | **52.9** | **34.0** | |
| Unsecured bank loans | (40.0) | (255.0) | |
| Corporate bonds | (1,163.7) | (905.2) | |
| Fair value hedges of bonds | 38.7 | 30.4 | |
| **Net debt excluding leases** | **(1,112.1)** | **(1,095.8)** | **- 1.5%** |
| Lease debt under IFRS 16 | (1,251.0) | (1,366.3) | |
| **Net debt including leases** | **(2,363.1)** | **(2,462.1)** | **+4.0%** |

The year on year reduction in lease debt reflects the payments made in the period and the trend towards shorter lease terms on lease renewals.

## *Lease Commitment Profile*

On an IFRS 16 basis 50% of the lease liability (by value) will expire within the next 11 years. This differs to the lease profile on page 28 which states that 50% of the leases will expire within 4.8 years and that within the next 10 years 81% of the rental liability would have expired.

This difference is primarily due to the following factors:

- The IFRS 16 lease profile includes all lease contracts within the scope of IFRS 16 - stores, warehouses and plant and machinery. In contrast the lease commitment profile on page 28 includes store leases only
- The IFRS 16 liability includes lease terms beyond the break clause based on our expectation of how long we will remain in the lease. In contrast the lease commitment profile on page 28 only includes the commitment to expiry or break point
- The IFRS 16 lease liability is measured as the present value of future lease payments. In contrast the lease commitment on page 28 is not discounted.

# BUSINESS MODEL

**NEXT's purpose is to offer beautifully designed, excellent quality clothing and homeware which are responsibly sourced and accessibly priced.**

## Why we are unique

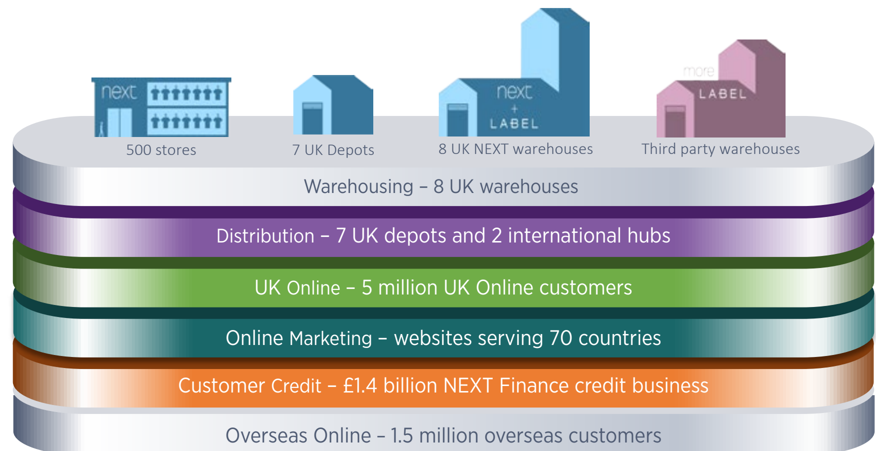
Our NEXT Platform draws on all our assets – stores, warehouses, delivery networks, systems, marketing, credit facilities – to create a single powerful aggregation business selling hundreds of third-party clothing and home brands alongside our own NEXT merchandise. We also draw upon the strengths of our employees and our other key stakeholders – see page 73.

In the UK, the scale of our Online business, supported by our store network and strong relationships with partner brands, enables NEXT to offer a broad product range to satisfy consumer demand for choice. In 2019/20, over £500m of other brands' products were sold through LABEL.

The lower barriers to entry created by the shift to online retail have enabled NEXT to take advantage of overseas markets. Sales of NEXT branded products overseas continue to grow strongly and in 2019/20, Online Overseas sales exceeded £450m.

Our Platform has three very clear objectives:

- To be our customers' first choice destination 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 we and our partner brands can be proud of




## WHAT WE SELL

### NEXT BRANDED PRODUCTS

#### In-house design capability

Our in-house team develop NEXT branded products offering great design, quality and value for money

#### Responsibly sourced

We source globally to deliver quality and value for money NEXT branded products that are responsibly sourced. NEXT Sourcing, our Hong Kong-based international sourcing agent, competes for business with other suppliers

### LIPSY

- Lipsy is our wholly owned subsidiary which designs and sells its own branded and other branded products
- Aimed at a younger female demographic
- Multi-channel; trades through NEXT Online, from 40 NEXT stores, and through wholesale and overseas franchise channels

### LABEL

LABEL is our online aggregation business selling almost 1,000 third-party brands

## HOW WE ADD VALUE

**More product choice**

A combination of NEXT products and almost 1,000 third-party brands means customers can choose from an extensive range of clothing and homeware products

**Strong third-party LABEL relationships**

We aim to be the most profitable route to market for our third-party LABEL partners

**Cost and quality control**

Our sourcing structure provides excellent quality and accessibly priced products for our customers. It also helps maintain our margin through efficient product sourcing, stock management and cost control

## Our objectives

The primary financial objective of the Group is to build shareholder value through long term, sustainable growth in Earnings Per Share (EPS) while conducting our business responsibly (see page 66). This long term value creation is driven by our core principles of doing business:

### 1. Add value

- Use our product skills, distribution networks, systems, services and sourcing to create goods and provide services that consumers cannot easily find elsewhere
- Focus on customers' satisfaction levels by improving the customer experience in our stores and continuing to develop and enhance our Online website

### 2. Play to our strengths

- Improve and develop our product ranges by using our design skills to create quality products at affordable prices
- Increase the number of profitable Online customers and their spend, both in the UK and internationally. Our UK Online business is complemented by our LABEL offering of branded products and the credit facility (next**pay**). Our objective is to be our customers' first choice online retailer for clothing, footwear and home products

### 3. Make a margin

- Achieve healthy gross and net margins through efficient product sourcing, stock management and cost control
- Healthy margins help create stability that allows the business to withstand the vagaries of any consumer-facing business

### 4. Good returns on capital invested

- Support the Group's access to low cost finance by maintaining a strong balance sheet and secure financing structure
- Make a return on capital commensurate with risk, and using robust investment appraisal models targeting financial hurdles, including cash payback and return on capital invested
- Maximise the profitability of retail selling space

### 5. Generate and return surplus cash to shareholders

- This is done by way of share buybacks and/or special dividends

## HOW WE SELL IT

### Flexible and robust infrastructure and distribution channels

- Our warehouse and logistics operations provide an efficient and agile product distribution network
- 8 UK warehouses, 7 UK depots and 2 international hubs provide cost-effective delivery to our Online and Retail customers

### Digital marketing and websites

- Online sales of NEXT branded products are routed through our own website and third-party websites
- Together, those websites serve 70 countries

### Well-connected store network

- Around 500 stores in the UK and Eire.
- Our stores play an important role in supporting our Online customers
- Nearly half of our UK Online orders (by number of orders) are fulfilled through collection from our stores and over 80% of returns are through our stores

### Overseas

- 1.5 million overseas customers
- 185 mainly franchised stores in 31 countries.
- Online orders are fulfilled from both our UK warehouses and our international hubs

### Flexible UK credit financing business

- £1.4bn of consumer credit is currently provided to customers
- We offer a credit facility for UK NEXT Online customers called nextpay
- We also offer next3step, a credit account which allows customers to spread the cost of orders over three months interest-free

### Creating value for shareholders

- We manage financial resources effectively with a strong focus on cost control and maximising shareholder value
- NEXT is highly cash generative; after investing in the business, surplus cash is returned to shareholders

### Outstanding customer experience built on convenience and flexibility

- Customers can order online or in-store and choose delivery to home or store
- UK Online customers ordering before midnight can expect next-day delivery as standard
- We also offer a 'Collect Today' service in the UK on certain items ordered online for same-day collection in-store

# 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 201 for further details. The KPIs include Alternative Performance Measures (APMs).

The directors use 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.

## Sales (%) APM

NEXT Brand full price sales growth

NEXT Brand total sales growth

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 to the financial statements).

## NEXT profitability APM

NEXT Retail operating margin

NEXT Online operating margin*

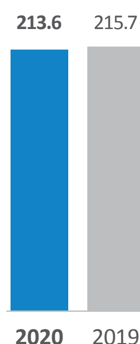
Group profit before tax (£m)

* excluding NEXT Finance

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 to the financial statements).

## Returns to shareholders (£m)

Ordinary dividends



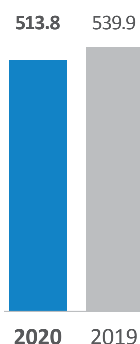

Based on dividends paid in the Cash Flow Statement. Refer to Note 7 to the financial statements.

Share buybacks

A total of 5,376,718 shares were purchased in the financial year (2019: 6,276,572) at an average cost per share of £55.83 (2019: £51.65) including stamp duty and associated costs.

The average price before costs was £55.49 (2019:£51.33). Buybacks represented 3.9% (2019: 4.3%) of opening share capital.

Total

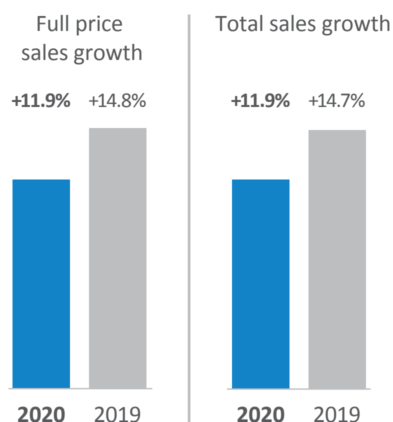



## Earnings Per Share APM

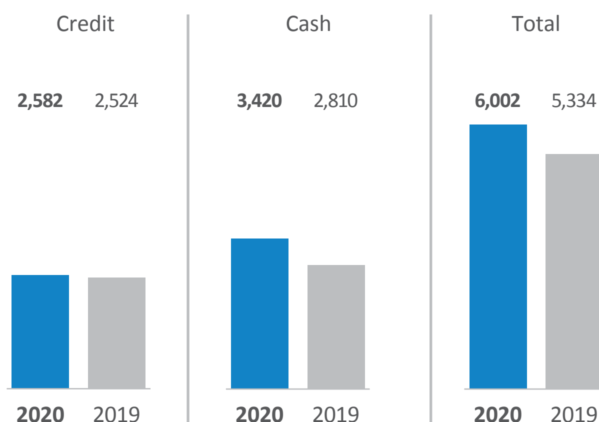
Refer to Note 8 to the financial statements.

APM Alternative Performance Measure. APMs are not defined in IFRS. The statutory equivalents are presented in the financial highlights (page 1) with further explanations and reconciliations provided in Appendix 1 to the Chief Executive's Review, the Glossary, and Notes 1 and 32 to the financial statements.

## NEXT Online sales performance APM



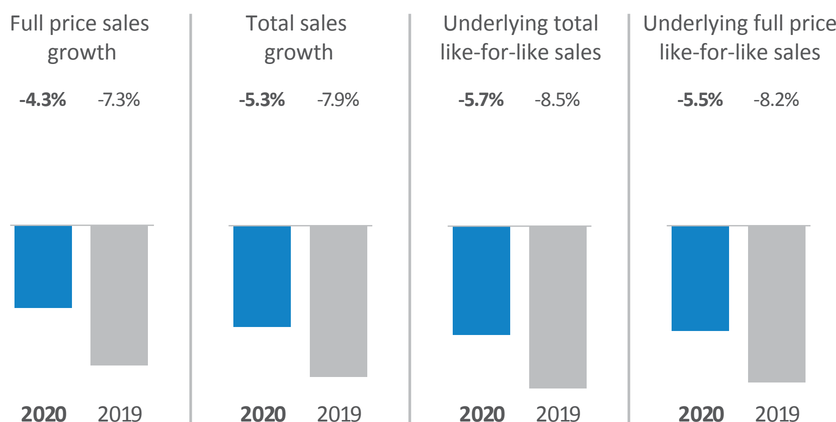

## NEXT Online average active customers (000's) APM




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.

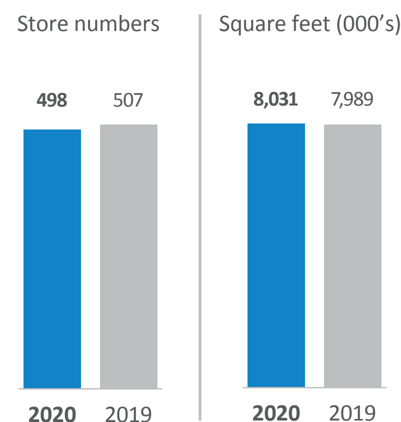
## NEXT Retail sales performance APM



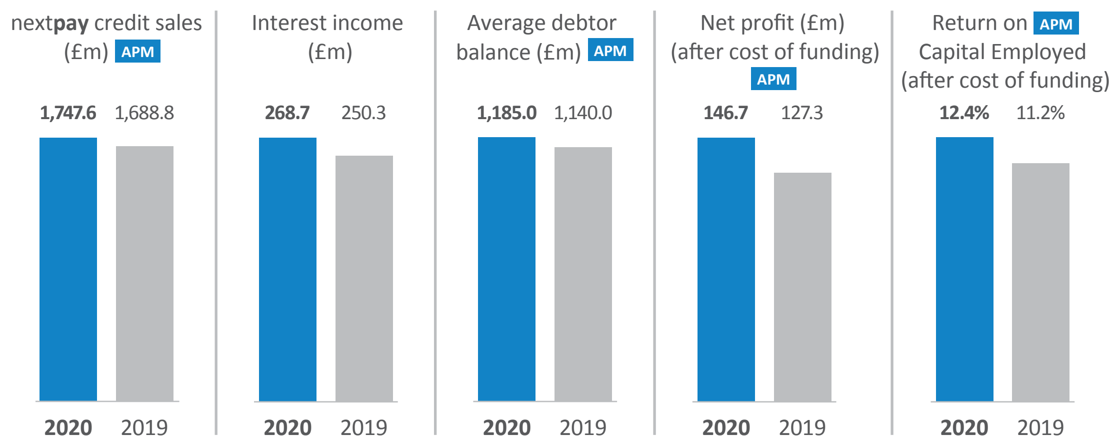

Underlying like-for-like sales represents the growth in sales from stores which have been open for at least one full year, excluding stores impacted by new openings.

## NEXT Retail selling space

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 square footage excludes 361k sq. ft. (2019: 305k sq ft) of space occupied by concessions.




## NEXT Finance




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). Net profit for 2019 has been restated for the revised allocation of finance costs.

# RISKS AND UNCERTAINTIES

## Risk management and internal control framework

The Board has overall responsibility for risk management, the supporting system of internal controls and for reviewing their effectiveness. The Group operates a policy of continuous identification and review of business risks. This includes the monitoring of key risks, identification of emerging risks, determination of treatment in taking into account risk appetite, and evaluation and reporting on how those risks may affect the achievement of business objectives.

The risks and uncertainties that the business faces evolve over time and executive directors and senior management are delegated the task of implementing and maintaining controls to ensure that risks are managed appropriately. The Group's risk management framework is designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

Our approach to risk management is illustrated by the following diagram and described below.

## Risk identification and assessment

- On a day-to-day basis, the risk management process is coordinated by the corporate compliance team which reports its findings to the Audit Committee regularly
- Each business area is responsible for preparing and maintaining operational risk registers and for identifying, analysing, evaluating, managing and monitoring the risks and emerging risks in their respective areas. Risk registers are prepared using consistent risk factors and evaluate business impact and likelihood ratings, both before and after the effect of any mitigating activities or controls
- A corporate risk register is maintained, reflecting the significant Group-level key risks identified from the operational risk registers. This 'bottom up' identification of risks is overlaid by those risks highlighted from the 'top-down' review and challenge process (see below)
- The corporate risk register includes key controls, mitigating activities and action plans in respect of the principal risks and it forms the basis of the principal risks and uncertainties disclosed in this report. These principal risks are also considered during the directors' assessment of viability

## Review, challenge and control

- Issues, incidents and key risk indicators are reported to the corporate compliance team on a regular basis, in addition to a half yearly cycle of risk and control assessments. This helps to identify any control weaknesses for remediation. During this review, the business areas are asked to consider and report on the emerging risks in their areas
- There is an annual review of operational risk registers by relevant senior managers and operational directors. This is to ensure risks are comprehensively covered and assessed consistently across the business
- A senior management Risk Steering Committee has been established during the year which meets at least four times annually. The work of the Steering Group includes: assessing and challenging the consolidated operational and strategic risks; overseeing the development of risk modelling, processes and risk reporting; influencing the prioritisation of mitigating actions; reviewing the Company's horizon-scanning processes and emerging risks; monitoring management's responsiveness to findings and recommendations of documented risks and controls; and providing reports and recommendations to the executive directors, Audit Committee and Board including to assist with assessing the effectiveness of the risk management system and internal controls and the setting of risk appetite with regard to the principal risks
- The work and findings of the corporate compliance team are considered by the Audit Committee at least twice each year and by the Board at least annually. At that time they also review the principal risks of the business and evaluate the effectiveness of the risk management and internal controls systems
- 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

## Emerging risk

As part of the ongoing risk management framework described above, the Group's subject matter experts in our business areas, our Risk Steering Committee and Board are all specifically tasked to identify emerging risks and to assess their potential impact on the business. During the review process this year, the Audit Committee challenged management to consider emerging (and indeed principal) risks in light of the changing shape of the NEXT business, the challenging trading conditions in the retail sector and other external factors.

## Risk appetite

In determining its appetite for specific risks, the Board ensures that the risks are consistent with its financial objectives and values. On page 55 we talk about our principles of doing business and those principles contribute to managing the business objectives within the Board's risk appetite. In particular, our financial disciplines ensure that each of our business divisions make net margins that are sufficient to allow them to withstand the inevitable vagaries of any consumer facing business. We also ensure that we make healthy returns on capital employed, commensurate with the risks involved in our sector. In practical terms this means a return of no less than 15% on capital invested.

## Board review

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 2020 and up to and including the date of this report (see page 89 of the Corporate Governance Report for further details). The business will continue to review opportunities to mature, strengthen and improve the effectiveness of these systems.

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

## Brexit

The UK formally left the EU on 31 January 2020 and entered a transition period which is scheduled to end on 31 December 2020. During this period the UK will effectively remain in the EU's customs union and single market, so there will be no impact on NEXT during this period.

A Brexit Planning Statement providing a detailed analysis of the Brexit-related risks and operational challenges to our business and their potential impact is available on our corporate website, nextplc.co.uk.

We are well advanced in our Brexit preparations and are confident that all the necessary arrangements we need to make will be in place by 31 December 2020 if no new trade deal is agreed.

Whilst a no-deal Brexit is not our preferred outcome, as long as our ports continue to operate effectively we do not believe that the risks of a no-deal Brexit pose a material threat to the ongoing operations and profitability of NEXT's business, either in the UK or to our business into the EU.

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

## Coronavirus

A detailed summary of our impact assessment on the risks that the Coronavirus pandemic poses to the business, together with potential mitigating actions to conserve cash, is included in the Chief Executive's Review. The Review also summarises the output of a stress test which assesses the likely cash impact in various scenarios. However, the current uncertainty around the scale, timing and impact of Coronavirus means it is impossible at the time of writing to quantify accurately the level of risk associated with the pandemic.

## 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 any emerging risks, and those that would threaten its business model, future performance, solvency or liquidity. Please refer to the Corporate Governance Report on page 89 for further details. Certain changes have been made to the principal risks and uncertainties reported in the previous year as a result of this assessment.

- Regulatory compliance in relation to our consumer credit business has been added in recognition of the significant financial, operational and reputational damage that could arise were the Group to fail to conduct itself in accordance with the principles and rules set out by key regulators
- The principal risk of 'Retail store network' is broadened to 'Management of long term liabilities and capital expenditure' to cover other long term obligations and capital expenditure in addition to Retail store leases
- The principal risk of 'Information security, business continuity and cyber risk' is expanded to incorporate data privacy
- 'Customer experience' is changed to 'Customer facing systems' so as to cover the risk that the Company fails to adopt and make effective use of new technologies around software, hardware and mechanisation to ensure we serve our customers well
- The Board considered that, given the strength of the talent pipeline and the robustness of succession plans, the 'Management team' risk relating to failure to attract, motivate and retain highly qualified senior management and technical personnel should be demoted from the list of principal risks

The principal risk areas otherwise remain the same as reported last year. Those principal risks are described over the next few pages together with an explanation of how they are managed or mitigated.

Reputational risk is not in itself one of the principal risks detailed below, instead it is a key factor in evaluating all principal risks. The Board is committed to ensuring that the key risks are managed on an ongoing basis and operate within appetite. 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 (see the viability assessment on page 65).

# RISKS AND UNCERTAINTIES

## Link to strategy

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

Risk trend: ↑ Increasing ↔ Unchanged

| Principal risk and description | How we manage or mitigate the risk |
|---|---|

### Business strategy development and implementation

If the Board adopts the wrong business strategy or does not implement its strategies effectively, our business may suffer. The Board therefore needs to understand and properly manage strategic risk, taking into account specific retail sector risk factors, in order to deliver long term growth for the benefit of 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 regular updates at Board meetings regarding key opportunities and progress of major initiatives.
- Our International Online business and our third-party label business provide geographic and product diversity
- Our disciplined approach to sales, budgeting, investment returns and cost control ensures the Company continues to generate strong profits and cash flows
- 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
- A detailed plan to manage the business going forward and its longer term direction of travel exists and is clearly articulated to our stakeholders in our annual and half yearly reports
- Longer term financial scenarios for our Retail business have been prepared and stress tested. This process provides a mechanism for ensuring that business profitability is maximised through efficient allocation of resources and management of costs

### Product design and selection

Our success depends on designing and selecting products that customers want to buy, at appropriate price points and stocked in the right quantities.

In the short term, a failure to manage this risk may result in surplus stocks that cannot be sold and may have to be disposed of at a loss.

Over the longer term, a failure to meet the design, quality and value expectations of our customers will adversely affect the reputation of the NEXT Brand.

- Executive directors and senior management continually review the design, selection and performance of NEXT product ranges and those of other brands sold by NEXT. To some extent, product risk is mitigated by the diversity of our ranges and our third-party label product 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 necessary
- Senior product management approves quality standards, with in-house quality control and testing teams in place across all product areas
- Senior management regularly reviews product recalls and product safety related issues

| Principal risk and description | How we manage or mitigate the risk |
|---|---|

## Key suppliers and supply chain management

Reliance on our supplier base to deliver products on time and to quality standards is essential. Failure to do so may result in an inability to service customer demand or adversely affect NEXT's reputation.

Changes in global manufacturing capacity and costs may impact 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 seeks ways to develop our supplier base to reduce over-reliance on individual suppliers and 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 audits 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. Further details are set out on page 67
- 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 receives Code of Practice and modern slavery updates from senior management during the year
- The Audit Committee receives modern slavery and anti-bribery training progress updates together with whistleblowing reports at each meeting. Significant matters are reported to the Board

## Warehousing and distribution

Our warehousing and distribution operations provide fundamental support to the running of the business. Risks include business interruption due to physical damage, access restrictions, breakdowns, capacity and resourcing shortages, IT systems failure, inefficient and slow processes and third-party failures.

Increasing choice in the products NEXT sells has been central to the development of our Online Platform but the proliferation of unique items has presented our warehouse operation with significant challenges.

- Planning processes are in place to ensure there is sufficient warehouse handling capacity for expected future business volumes over the short and longer terms
- Service levels, warehouse handling, inbound logistics and delivery costs are continually monitored to ensure goods are delivered to our warehouses, Retail stores and Online customers in a timely and cost-efficient manner
- Our Warehouse Leadership Team meets regularly to assess the opportunities and risks in our warehouse and logistics network
- Business continuity plans and insurance are in place to mitigate the impact of business interruption
- The Board has approved and keeps under regular review a warehouse investment proposal to accommodate further Online growth and transfer in customer demand from Retail to Online (see page 20 for further details)
- During the year, the Audit Committee requested and received updates of key warehouse fire risks and mitigation plans from our Warehousing and Logistics directors. Following a detailed review of the risk of business interruption arising from a catastrophic event in one of our key warehouses, the Board approved an increase in the value of risk covered by insurance

# RISKS AND UNCERTAINTIES

| Principal risk and description | How we manage or mitigate the risk |
|---|---|

## Customer-facing systems

NEXT's performance depends on the engagement, recruitment and retention of customers, and on its ability to drive and service customer demand. There is a risk that the business fails to adopt and/or make effective and efficient use of new software, hardware and mechanisation to provide both Retail and Online customers with service levels that meet or exceed their expectations. These systems, software and platforms are ever changing, as technology continues to evolve. Keeping customers and users up to date and managing the implementation and changes that come with the evolution of these platforms can be challenging.

- Continued investment in technology which supports the various component parts of the NEXT Online Platform
- Continual development and monitoring of performance of NEXT's UK and overseas websites, with a particular focus on improving the online customer experience
- A range of key trade and operational meetings keep under review the performance, evolution, risks and opportunities of the NEXT customer facing systems. Executive directors are in attendance at each of these key meetings
- Market research and customer feedback is used to assess customer opinions and satisfaction levels to help to ensure that we remain focused on delivering excellent customer service
- Ongoing monitoring of KPIs and feedback from website and call centre support operations

## Management of long term liabilities and capital expenditure

Poor management of NEXT's longer term liabilities and capital expenditure could jeopardise the long term sustainability of the business. It is important to ensure that the business continues to be responsive and flexible to meet the challenges of a rapidly changing Retail sector.

- Our predominantly leased store portfolio is actively managed by senior management, with openings, refits and closures based on strict store profitability and cash payback criteria
- We undertake regular reviews of lease expiry and break clauses to identify opportunities for exit or renegotiation of commitments. 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
- We ensure that we make healthy returns on capital employed, commensurate with the risks involved in our sector (in practical terms this means a return of no less than 15% on capital invested).
- Appropriate amortisation accounting policies reduce the risk of unexpected significant write-off

| Principal risk and description | How we manage or mitigate the risk |
|---|---|

## Information security, data privacy, business continuity and cyber risk

The continued availability and integrity of our IT systems is critical to successful trading. Our systems must record and process substantial volumes of data and conduct inventory management accurately and quickly. Continuous enhancement and investment is required to prevent obsolescence and maintain responsiveness.

The threat of unauthorised or malicious attack is an ongoing risk, the nature of which is constantly evolving and becoming increasingly sophisticated. Our brand reputation could be negatively impacted by cyber security breaches.

The Group could inadvertently process customer or employee data in a manner deemed unethical or unlawful, resulting in significant financial penalties, remediation costs, reputational damage and/or restrictions on our ability to operate. This is against a backdrop of:

- The changing attitude of UK consumers toward their data and how it is used
- Increasingly complex and fast-evolving data protection law and regulation
- Rapid technological advances delivering an enhanced ability to gather, draw insight from and monetise personal data

- We operate an Information Security and Data Protection Steering Committee. Its main activities include agreement and monitoring of related key risks, activities and incidents. The Committee comprises two executive directors and relevant senior management
- Significant investment in systems' development and security programmes has continued during the year, complemented by in-house dedicated information and physical 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, imposing contractual security requirements and service level agreements on third-party suppliers, and IT capacity management
- All staff and contractors are required to read, accept and comply with the Group's data protection and information security policies, which are kept under regular review and supported by training
- Information security and data protection risk exposure was reviewed during the year by both the Audit Committee and the Board, target risk appetites were agreed and the controls necessary to achieve target were documented. A roadmap was prepared and approved to address gaps between current and target risk exposures

# RISKS AND UNCERTAINTIES

| Principal risk and description | How we manage or mitigate the risk |
|---|---|

## Financial, treasury, liquidity and credit risks

NEXT's ability to meet its financial obligations and to support the operations of the business is dependent on having sufficient funding over the short, medium and long term.

NEXT is reliant on the availability of adequate financing from banks and capital markets to meet its liquidity needs.

NEXT is exposed to foreign exchange risk and profits may be adversely affected by unforeseen moves in foreign exchange rates.

NEXT might suffer financial loss if a counterparty with which it has transacted fails and is unable to fulfil its contract.

NEXT is also exposed to credit risk, particularly in respect of our Online customer receivables, which at £1.4bn represents the largest item on the Group Balance Sheet.

- NEXT operates a centralised treasury function which is responsible for managing liquidity, interest and foreign currency risks. It operates under a Board approved Treasury policy. Approved counterparty and other limits are in place to mitigate NEXT's exposure to counterparty failure. Further details of the Group's treasury operations are given in Note 28 to 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 receives regular updates throughout the year regarding the customer credit business

## Regulatory compliance in relation to our consumer credit business

Failure to continuously adapt to the increasingly broad, stringent and fast-evolving regulatory framework applicable to the operation of the Group's customer credit business could result in significant financial penalties and remediation costs, reputational damage and/or restrictions on our ability to operate.

- Policies and training are in place for those employees and contractors working in the business areas that are subject to financial regulation. These are kept under review and updated.
- A dedicated financial regulatory compliance and quality assurance team monitors compliance and any changing requirements, working with external advisers as required.
- NEXT has identified a set of Conduct and Compliance risks, documented in an operational risk register, with owners and associated controls.
- Key risk and control performance indicators are managed through a series of operational meetings and reported quarterly to the Retail Credit Board.

# VIABILITY ASSESSMENT

## Statement of viability

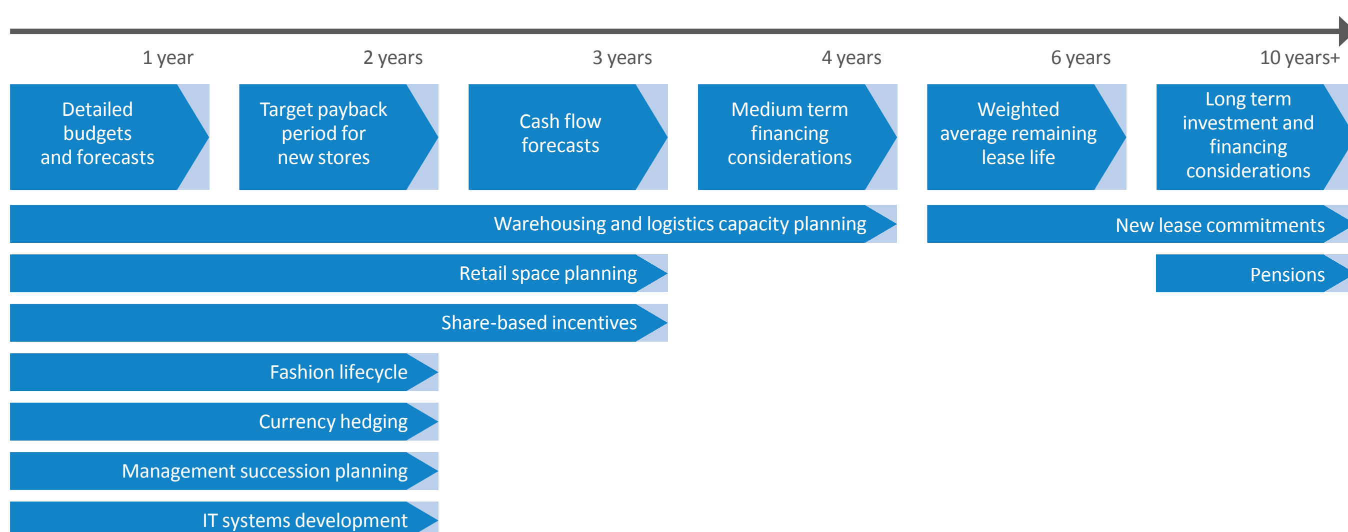
### Assessment of prospects

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 (pages 54 and 55), strategy (page 55) and the principal risks and mitigating factors described on pages 60 to 64. 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. In each of the last three years the business has generated surplus cash in excess of £300m. 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. Although a three year period is considered an appropriate period of assessment for the viability statement, beyond this time horizon management has also considered the possible performance of the business over the next 15 years in terms of sales and cash flow. This model gives the possible performance of the NEXT Group over the next 15 years in terms of sales and cash flow. Its purpose is to test the economic structure of the Group in an environment of rapid change by modelling the financial consequences of a continuing -10% fall in Retail like-for-like sales. This demonstrated that a radical restructuring 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.

### 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 60 to 64. 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.

Specific consideration was also given to the potential risks associated with the Coronavirus. This included the preparation of stress tests which model the impact of a decline in sales and the actions which the business could take to control costs, conserve cash and meet its liabilities as they fall due. For further details on the stress tests see pages 38 to 48.

### 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.

# CORPORATE RESPONSIBILITY

## Our principles

NEXT is committed to the following principles of responsible business which underpin our business model. We strive to:

- Act in an ethical manner
- Recognise, respect and protect human rights
- Develop positive relationships with our suppliers and business partners
- Recruit and retain responsible employees
- Take responsibility for our impact on the environment
- Deliver value to our customers
- Deliver support through donations to charities and community organisations

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

The following pages describe how we uphold these principles in relation to our stakeholders.

## OUR PEOPLE

Our workforce is integral to achieving our business objectives. We aim to attract, retain and develop the best talent at every level throughout NEXT and believe an engaged workforce is vital to achieving our aims. We strive to create a workplace in which everyone is safe; supported and respected; treated fairly and taken care of; listened to; and motivated to achieve their full potential. We are committed to achieving excellence in the areas of health and safety, wellbeing and the protection of our workforce in their working environment.

### Equal opportunities and diversity

NEXT is an equal opportunities employer and will continue to ensure that it offers career opportunities without discrimination. 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's policy is 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.

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 90.

The following chart shows the gender mix of the Group's employees at the end of the financial year:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Directors of NEXT plc | **5** | **4** | 5 | 4 |
| Subsidiary directors and other senior managers[1] | **29** | **14** | 25 | 12 |
| Total employees | **14,143** | **30,271** | 14,353 | 30,329 |

1 At January 2020, senior managers comprised 14 male and 12 female employees and their direct reports consisted of 58 male employees and 90 female employees.

## Reward, gender pay and employee share ownership

We aim to reward all employees with fair and competitive salaries and provide the opportunity to gain additional pay in the form of a bonus depending on Company (or in some cases store or individual) performance. NEXT publishes its annual Gender Pay Report at nextplc.co.uk.

Approximately 8,600 employees (circa 22% of our total UK and Eire employees) held options or awards in respect of 6.4m shares in NEXT at the end of January 2020, 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 5.4m 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 20 to the financial statements. At January 2020, there were 751 (2019: 814) active members in the defined benefit section of the 2013 NEXT Group Pension Plan and 4,418 (2019: 4,841) UK active members of the defined contribution section. In addition, 14,390 employees (2019: 13,118) participate in the Group's auto enrolment defined contribution scheme.

## Training and development

NEXT aims to realise its employees' potential by supporting their career progression and promotion wherever possible. The Group makes significant investment in the training and development of staff and in education programmes which contribute to the promotion prospects of employees. We believe that these opportunities will help employees feel supported and equipped to carry out their role to the best of their ability.

## Health, Safety and Wellbeing

NEXT recognises that the health, safety and wellbeing of employees is of critical importance. 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.

# OUR SUPPLIERS

It is a key priority for NEXT to ensure we trade ethically, taking all reasonable and practical steps to ensure NEXT product is made by workers who are treated honestly and fairly for the work they undertake and whose safety, human rights and wellbeing are respected. We work with both suppliers and external experts to address and resolve issues within our supply chain and to raise standards generally.

In common with other retailers, NEXT's product supply chain is both diverse and dynamic. During the year, NEXT products were manufactured in around 40 countries.

## Ethical trading

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 almost 50 of our employees based in key sourcing locations. NEXT continues to focus on its supply chain as it recognises that there is potential for human rights issues to arise in this area.

NEXT's COP programme is based on the Ethical Trading Initiative (ETI) Base Code and International Labour Organisation 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 2,400 audits of factories in 2019/20 and work directly with suppliers to identify and address causes of non-compliance. NEXT also recognises the importance of partnership and collaboration with our suppliers, other brands and organisations when working to resolve some of the more complex problems.

Traceability and transparency of our suppliers' factories are an important part of NEXT's overall approach to corporate responsibility. Suppliers are contractually required to declare to NEXT all Tier 1 and 2 sites where NEXT branded products or components will be manufactured. This means we can ensure the facility is audited and meets our requirements. Tier 1 sites are defined as the declared supplier's factory where the contract is assigned and bulk production of NEXT branded products takes place. Tier 2 sites are defined as separate declared factory or subcontractor locations which manufacture or process materials, components or parts of a finished product for a Tier 1 site. We publish a list of Tier 1 suppliers' manufacturing sites producing NEXT branded products at nextplc.co.uk.

## Payment practices

NEXT has calculated and uploaded relevant supplier data onto the HMRC government portal under the 'Duty to report on payment practices and performance' legislation under section 3 of the Small Business, Enterprise and Employment Act 2015.

# CORPORATE RESPONSIBILITY

## OUR CUSTOMERS AND PRODUCTS

NEXT is committed to offering exciting, beautifully designed, excellent quality products that are well made, functional, safe and responsibly sourced and which provide outstanding value to meet or exceed our customers' expectations. 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.

### Customers

NEXT endeavours to provide a high quality service to its customers, whether they are shopping through our stores or online. Our NEXT Customer Services teams respond to a wide range of customer enquiries and issues. Customer feedback is gathered from a variety of different sources and findings are reviewed and the information is used by relevant business areas to ascertain how products or services can be improved.

### Product safety and legislation compliance

Our product safety standards are based on a range of legislation and compliance requirements. Technologists in our Product teams work closely with our suppliers to provide expert guidance to ensure the right materials are chosen to manufacture high quality, durable products in factories with robust product safety processes. Suppliers to NEXT have direct access via our online Supplier Portal to our full range of technical manuals and quality, safety, ethical and responsible sourcing standards. All products are inspected upon receipt into our UK warehouses by our quality assurance team to ensure they meet our requirements.

NEXT also works with our LABEL third-party brands to ensure all products offered for sale are safe for the intended end use. We require brands to be able to demonstrate compliance with all applicable legislation and standards through risk assessment, certification and testing as well as being able to show the product has been sourced from factories which are compliant with the ETI Base Code.

### Responsible sourcing

Each stage of our supply chain has an environmental and social impact, from sourcing the materials through to post consumer use and disposal. The majority of environmental impacts lie in the fibre and fabric production stage. Whilst we do not source raw materials directly, we work with our suppliers to ensure we can trace their routes. This enables us to source products in ways which support their replenishment, respect human rights and protect natural habitats. The main raw materials used in our products are cotton, wool, manmade cellulosic (such as viscose), polyester, timber and leather. These materials can have wide-ranging environmental and social risks associated with their production and extraction if not managed correctly. Our 2025 Responsible Sourcing Strategy sets out our ambition to source 100% of our main raw materials through known, responsible or certified routes and work with our suppliers to help reduce the impact of manufacturing processes on the environment and on the health of those working and living in communities around the sites where our products are made.

Solutions to reduce environmental and social impacts can really only be achieved with collaborative global actions. NEXT, along with other retailers, is involved in a number of initiatives to minimise these adverse impacts. These include:

| Initiative | Description |
| --- | --- |
| Zero Discharge of Hazardous Chemicals (ZDHC) Roadmap to Zero | NEXT is a signatory to the ZDHC programme to collaborate on promoting industry-wide change in responsible chemical management in textile and leather production processes (dyeing, printing and laundering of textiles, and tanning and dyeing of leather) to protect workers, customers and the environment. NEXT has its own Restricted Substances Standards which ban or state the limits for harmful chemicals used in or during the manufacture of our products.<br><br>We provide specially-designed online chemical management training modules to our suppliers (notably our key fabric mills and wet processors) to educate on good practices to reduce and eliminate the discharge of hazardous chemicals from production processes into the environment. |
| Better Cotton Initiative (BCI) | Next joined the BCI in 2017 and in 2019 sourced 34% (2018/19: 13%) of its cotton as Better Cotton. Our target is to source 100% of cotton from BCI, recycled, Certified Organic or Fairtrade Certified cotton by 2025.<br><br>NEXT does not support the use of cotton from Uzbekistan or Turkmenistan in our textile products due to concerns over child labour and working conditions in these territories. We also expect our suppliers not to source cotton from these countries. |
| Changing Markets Foundation's Roadmap Towards Responsible Viscose and Modal Fibre Manufacturing | This Roadmap focuses on the chemicals used to break down timber to make viscose pulp which is spun to create fibre. It aims to minimise the effects of harmful chemicals in the manufacturing process. NEXT works with its viscose and modal manufacturers to help them adopt closed-loop production systems to ensure emissions controls and chemical recovery rates are in line with the EU Best Available Technique (BAT) standards. |
| CanopyStyle | NEXT is working with Canopy through its CanopyStyle initiative to ensure wood-based fabrics are responsibly sourced. We are committed to ensuring cellulosic fibres used in our products do not come from ancient and endangered forests, endangered species or illegal sources and that the rights and wishes of indigenous communities are respected. |
| Timber sourcing | NEXT aims to contribute to zero net deforestation and forest degradation through our sourcing decisions. We risk assess all timber products to verify that the material used was harvested, traded and transported in compliance with the applicable legislation in the country of origin in line with the EU Timber Regulation (995/2010) and our detailed timber sourcing policy. |
| TMC (The Microfibre Consortium) | In 2017 NEXT joined TMC to collaborate to develop a robust solution for microfibres being found in the marine environment. NEXT has directly supported, using its in-house laboratory, the development of testing methodology to assess fibre shedding. This will help TMC to work towards robust industry-based solutions. |
| Waste Resources Action Plan – Sustainable Clothing Action Plan (SCAP) | NEXT is a signatory of the SCAP, a UK collaborative framework to deliver industry-led targets on carbon, water and waste to improve the sustainability of textiles across their entire life cycle. This initiative allows participants to measure, in an industry-consistent manner based on fibre submission, the embodied emissions of products over their whole lifecycle (from raw material sourcing to product end of life). |

# CORPORATE RESPONSIBILITY

## ENVIRONMENT

NEXT remains committed to minimising our environmental impacts by reducing both the carbon intensity of our activities and the natural resources we use, through the development and operation of good business practices to manage resources more efficiently throughout their lifecycle.

When setting our approach to identify climate-related risks and opportunities, NEXT takes into account the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) and the eleven recommended climate-related disclosures across four competency areas: Governance; Strategy; Risk Management; Metrics and Targets. TCFD is a voluntary framework, and we aim to align our reporting with the requirements of the TCFD over time. We are undertaking a detailed review to identify the key risks and opportunities posed to NEXT by climate change and how they may impact our business in the future. We plan to:

- Undertake a scenario analysis to develop our understanding of the risks and opportunities along with their associated financial impacts
- Report on our planned activities following the scenario analysis to determine the potential financial impacts on our current business model
- Develop our management response to the scenario findings

We recognise that risks and opportunities can arise from the physical impacts of climate change (more frequent or extreme weather events) and also from regulatory, technological or market trends as society transitions to a low carbon economy. The use of climate scenario analysis will enable us to test the resilience of our business and we will continue to identify transitionary and physical risks and opportunities to help determine what our management response should be.

### Direct operations

As a responsible business, NEXT is working to reduce the direct impact of our business operations on the natural environment. In order to help us understand the impact of our direct business we measure our global carbon footprint produced from the operational activities of NEXT over which we have direct control. We recognise that current global emissions trends are not aligned with international commitments such as the 2015 Paris Agreement.

In 2016/17, we set a five year target to reduce our electricity consumption by 10% in kg $CO_2e/m^2$ by 2020/21. We achieved this target in 2018/19 with a 15% reduction. As a result, in 2019 we launched a new carbon reduction target to reduce Scope 1 and Scope 2 absolute carbon emissions by 50% against our 2016/17 baseline. We aim to achieve this by 2030 and by the end of the year we had achieved a 35% reduction against our 2016/17 emissions.

### 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:

| | **2020 Tonnes of $CO_2$ equivalent** | 2019 Tonnes of $CO_2$ equivalent |
|---|---|---|
| Combustion of fuel and operation of facilities (Scope 1) | **45,739** | 46,911 |
| Electricity, heat, steam and cooling purchased for own use (Scope 2) | **60,440** | 70,693 |
| Total Scope 1 and Scope 2 emissions | **106,179** | 117,604 |
| Intensity metric: tonnes of $CO_2e$ per £m of sales | **24.34** | 27.86 |

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 2019. For International electricity, Scope 2 factors published by IEA in 2019 have been used. 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.

### Renewable energy

NEXT is a signatory to the RE100 initiative that commits businesses to using 100% renewable energy by 2030. Our UK and Eire operations have been run using 100% renewable energy since April 2017, and we continue to work towards achieving this in our direct operations overseas.

## Waste, packaging and recycling

NEXT operates an ongoing programme of reduction, reuse and recycling. We exceeded our target of diverting more than 95% of operational waste from landfill by 2020 for reuse or recycling, achieving 97% in 2019/20.

NEXT has contributed to Government Waste Strategy consultations with the aim of overhauling the waste system and improving recycling for consumers (e.g. consistent material collections by all Local Authorities), helping to develop a more circular economy.

NEXT is committed to finding ways to reduce the amount of its packaging and eliminate avoidable plastics in product packaging such as PVC, polystyrene and acetate by 2025. All our packaging is recyclable, although not all local authorities recycle all materials. In 2019 we introduced 100% recycled content carrier bags in our retail stores.

We also focus on helping customers with products which are harder to recycle e.g. mattresses and furniture. NEXT works with the British Heart Foundation (BHF) to help customers donate for reuse unwanted furniture and home products (including clothing) to raise funds to support BHF's aims. BHF generated £1.3 million from NEXT customers' donations between 2016–2019.

# COMMUNITY

NEXT recognises that its activities have an impact upon communities local to where we operate and also on the wider environment. We seek to minimise any adverse impact as far as possible and to engage and support our communities in a positive manner.

## Supporting charity and community

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

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Registered charities | **1,069** | 1,153 |
| Individual requests, local and national groups and organisations | **8** | 21 |
| Commercial support | **95** | 96 |

This support was supplemented by the following additional activities:

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| NEXT charity events | **7** | **29** |
| Gifts in kind – product donations | **1,963** | **2,167** |
| Charity linked sales | **208** | **211** |
| Employee fundraising | **97** | **61** |

The proceeds of sale of our reusable carrier bags go to our nominated charities across England, Scotland and Wales. We support both environmental charities and health charities that focus on care for life-limited children, young people and their families. In Northern Ireland, the monies raised are paid to the Government who use the proceeds to fund environmental projects.

As part of our target to divert our waste from landfill, we continue to identify and divert products which previously may have been disposed of via landfill and offer them for reuse to a group of registered charities and social enterprise organisations. These organisations are able to reuse and recirculate products and materials as well as create value from the products to benefit their aims.

# CORPORATE RESPONSIBILITY

## HUMAN RIGHTS AND MODERN SLAVERY

Respect for human rights is a fundamental part of how NEXT operates as a responsible business. As a business we seek to avoid infringing the human rights of others and work to address any adverse human rights impacts we identify. 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. Any instance of forced labour is unacceptable.

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.

Our approach is to implement the United Nations Guiding Principles on Business and Human Rights (UN Guiding Principles). Our corporate responsibility reporting aligns with the United Nations Guiding Principles Reporting Framework. It helps us to identify and manage the risk of harm associated with unsatisfactory working conditions, discrimination, modern slavery, human trafficking and forced or bonded labour, particularly to the most vulnerable and exploited, such as women and children.

Using this Reporting Framework, we combine the knowledge and experience we gain from working with our global supply chain and business partners, together with learnings from affected stakeholders and NGOs, to look at our business and assess the risks to people. Our salient human rights are:

- Freedom of association and collective bargaining
- Health and safety (including mental health)
- Children's rights
- Modern slavery (including wage retention)
- Wage levels (including fair wages)
- Harassment and discrimination
- Water, sanitation and health
- Working hours
- Privacy and data security

Our Code of Practice (COP) Principle Standards are also designed to address these matters. Human rights issues evolve over time, therefore our approach to tackling them must also evolve, including the development of relevant skills in our own COP team. We regularly review our COP processes and procedures to ensure we integrate indicators for new or emerging risks within our COP audits and provide training where needed. Where human rights issues do occur in our supply chain, we recognise the value in being transparent about how we have tackled them – including what worked and what didn't.

Collaboration and partnering is key to achieving change. Our in-country COP teams have direct links with locally-based representatives of NGOs and trade unions. This helps to broaden our understanding of root causes and solutions.

Our Modern Slavery Steering Group, comprised of relevant senior management representatives, meets regularly and co-ordinates actions across the business. We have introduced representatives from our product teams to the group to broaden our perspective and increase internal collaboration.

# SECTION 172 STATEMENT

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

## Our stakeholders

The directors consider that the following groups are the Company's key stakeholders. The Board seeks to understand the respective interests of such stakeholder groups so that these may be properly considered in the Board's decisions. We do this through various methods, including: direct engagement by Board members; receiving reports and updates from members of management who engage with such groups; and coverage in our Board papers of relevant stakeholder interests with regard to proposed courses of action.

### Workforce – see pages 73 and 74

The strength of our business is built on the hard work and dedication of all of NEXT's people. We also consider the interests of former employees who are members of a group pension scheme.

Our colleagues rely on us to provide stable employment and opportunities to realise their potential in a working environment where they can be at their best.

### Customers – see page 75

Our customers are the reason we exist. They have near limitless choice, so it is essential to our future that we can consistently and continuously design and offer attractive, stylish products of high quality to new and existing customers at an accessible price. In doing so, we will build our brand value and loyalty.

### Communities and the Environment – see page 75

Communities and the wider public expect us to act as a responsible company and neighbour, and to minimise any adverse impact we might have on local communities and the environment.

### Investors – see page 76

We rely on our shareholders and providers of debt funding as essential sources of capital to further our business objectives.

They rely on us to protect and manage their investments in a responsible and sustainable way that generates value for them.

### Suppliers – see page 75

We rely on our suppliers to make and distribute our products, provide the real estate through which we store and display our lines, and provide essential services we need to operate our business.

Our suppliers rely on us to generate revenue and employment for them.

### Regulators – see page 75

We seek to enjoy a constructive and cooperative relationship with the bodies that authorise and regulate our business activities. This helps us maintain a reputation for high standards of business conduct.

They expect us to comply with applicable laws, regulations and licence conditions.

## Having regard to the likely consequences of any decision in the long term

Within the fast-moving fashion retailing sector, the operational cycle is short and has become even shorter within recent years. Despite this, the Board remains mindful that its strategic decisions can have long term implications for the business and its stakeholders, and these implications are carefully assessed. The most prevalent example of this is in the Board's decisions with regard to capital allocation. During the year, in approving the Company's budget the Board balanced:

- the need for capital expenditure on new and existing stores, warehouses and systems to support operational performance; with
- a desire to remain resilient to risks, attract and retain long term investors by maintaining a progressive dividend policy and to return surplus capital to shareholders via the continuing share buyback programme.

## Having regard to the interests of the Company's employees

The Board takes active steps to ensure that the suggestions, views and interests of the workforce are captured and considered in our decision-making.

NEXT benefits from having a Chief Executive and three other executive directors who have served with the Company as employees and, latterly, as directors over a period of 20 to 30 years. They all therefore perform a high degree of personal oversight and engagement in the Group's affairs. This knowledge of the business and active style of engagement means our executive directors maintain an exceptionally acute insight into the mood, culture and views of the workforce, which they are then able to report on to the wider Board.

# SECTION 172 STATEMENT

## Employee engagement

NEXT has a number of effective workforce engagement mechanisms in place across the Group:

- Employees are kept informed of performance and strategy through regular presentations and updates from members of the Board
- The executive directors attend key business meetings throughout the year, including weekly trading and capex meetings, monthly international sales meetings, and presenting financial results to Head Office employees
- Employee engagement surveys are undertaken covering the vast majority of the workforce, and the results are reported to the Board
- The Chairman and other non-executive directors attend meetings with employees, including:
  - Product Training Days and visits to stores and warehouses as a Board as well as individual director visits
  - the attendance by a non-executive director, alongside the Chief Executive and the Group HR Director, at meetings of the Group's Workforce Focus Forums with workforce representatives (these are workforce advisory panels as referred to in the Corporate Governance Code). This allows effective engagement and open discussion on the key business issues, policies and the working environment in different parts of the business, with actions agreed on issues raised
- During the year a new online tool was put in place to facilitate ongoing, meaningful performance and development conversations between managers and teams. The tool also provides a forum for positive and constructive feedback by individuals, peers and managers. Around 3,000 employees are currently using the tool; it will be rolled out more widely during 2020

The Group HR Director attends certain meetings of the Board to brief on employee-related matters, including workforce demographics, engagement activities, the results of employee opinion surveys, staff retention rates, diversity, numbers and nature of whistleblowing, disciplinary and grievance procedures, learning and development activity, pay and reward including gender pay gap and HR initiatives.

The Board considers that, taken together, these arrangements deliver an effective means of ensuring the Board stays alert to the views of the workforce.

With regard to health, safety and wellbeing, during the year the Audit Committee received an update from the Group Health and Safety Manager including on safety performance, safety risk management and mental health wellbeing initiatives.

## Diversity

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

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

## Case study – Retail store contract consultation

**During the year, the Board considered a number of matters where it was important to be mindful of the interests of employees. One example of this was with regard to a number of store closures considered in the year, where the Board was assured of the Group's approach of seeking to minimise redundancies of affected store staff and, wherever possible, to offer alternative employment in other stores.**

**A consultation process proposal was also considered in detail by the Board. A key objective of the proposal was to re-set the base contracts in retail stores with the least disruption to all staff. The Board considered the interests of employees, concluding that there would be a reduced overall impact on employees when considered against more disruptive alternatives, and some positive employee benefits in terms of more certainty over working hours to aid the smooth running of stores.**

**The Board also concluded that, due to the impacts being spread across a geographically dispersed network, there would be minimal impact to customers, local communities and suppliers.**

# Having regard to the need to foster the Company’s business relationships with suppliers, customers and others

## Suppliers

Throughout the year the Board was briefed on major contract renegotiations and strategy with regard to key suppliers, notably with the Group’s providers of freight forwarding services, and with certain landlords of the Group’s premises. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers. See also below with regard to ethical trading and our focus on suppliers as part of maintaining a reputation for high standards of business conduct.

## Customers

As a large retail business, the sentiment of customers can be seen in the Company’s underlying sales performance figures, which the Board reviews regularly. The Executive directors provide updates to the Board on their perceptions of consumer sentiment and the market view. The interests of customers are considered in key decisions e.g. relating to: store portfolio changes; selection of product lines including third-party brands; selection and monitoring of suppliers to ensure quality and safety standards are met; freight and logistics arrangements to maximise efficiencies from order to delivery; the availability of customer credit products; and the development of the Online Platform.

With the interests of customers in mind, during the year the Board reviewed proposals in respect of: store closures and new openings; capital expenditure on stores and warehouses; a new credit product from NEXT Finance and major freight forwarding and parcel delivery contracts.

## Regulators

Our Finance business is regulated by the Financial Conduct Authority in respect of the provision of consumer credit. As a responsible authorised company, we seek always to cooperate and engage constructively with the FCA and meet its standards. The Audit Committee exercises independent oversight over the regulated Finance business that includes updates on matters under discussion with the FCA.

NEXT manages its tax affairs responsibly and proactively to comply with tax legislation. The Company’s approach is to seek to build solid and constructive working relationships with all tax authorities. NEXT’s UK tax policy can be found at nextplc.co.uk, and was reviewed and approved by the Board during the year. This policy includes that the Company engages with HMRC constructively, honestly and in a timely and professional manner, and seeks to resolve disputed matters through active and transparent engagement. Engagement with HMRC is led by the Company’s in-house tax team of qualified tax professionals. The Group CFO provides regular updates to the Board on tax matters.

## Debt capital/credit facility providers and credit reference agencies

The Group Finance Director and the Company’s Treasury team are responsible for managing the relationships with our bank syndicates, bond trustees and credit rating agencies, and for the Group’s cash/debt management and financing activities. The Group Finance Director provides regular reports to the Board on these activities including the Company’s plans to ensure appropriate access to debt capital, monitoring the headroom and maturity schedules of our primary credit facilities. The Board approves the Company’s Treasury Policy annually.

During the year the Board approved: a debt substitution transaction between the Company and its subsidiary Next Group plc that increased the amount of reserves available for distribution to shareholders without prejudicing debt providers; the issue of a new £250m bond; and share hedging strategies in respect of the Group’s employee share plans. The Board carefully considers the Group’s cash position and forecasts when making decisions on capital allocation, the Company’s dividend policy and its share buyback programme.

# Having regard to the impact of the Company’s operations on the community and the environment

The Board supports the Company’s goals and initiatives with regard to reducing adverse impacts on the environment and supporting the communities that it touches. Please see pages 70 and 71 of our Corporate Responsibility Report for details. The Board intends to give further consideration in 2020 to the Company’s approach to climate change and further measures we can take to contribute to the reduction of our impact on the environment.

# SECTION 172 STATEMENT

## Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct

### Corporate governance

The Board recognises the importance of operating a robust corporate governance framework, and you can read about how we comply with the UK Corporate Governance Code and our approach to governance in our Corporate Governance Report on pages 83 to 89.

### Ethical trading and responsible sourcing

The Audit Committee exercises strong oversight over the Group's activities in these areas including reviewing the work of the COP team, and reports to the Board on such topics as appropriate. During the year the Board approved the Group's third Modern Slavery Transparency Statement, published at www.next.co.uk.

### Political donations

No donations were made for political purposes (2019: £nil).

See also the description of the Company's approach to engaging with Regulators on the previous page.

## Having regard to the need to act fairly as between members of the Company

The Company has just one class of share in issue and so all shareholders benefit from the same rights, as set out in the Company's articles of association and the Companies Act 2006. The Board recognises its legal and regulatory duties, including under the EU Market Abuse Regulation, and does not take any decisions or actions, such as selectively disclosing confidential or inside information, that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

### Shareholder engagement

During the year, the Chief Executive and Group Finance Director regularly held one-to-one meetings, calls, roadshows and conferences with institutional investors. The Chairman and Senior Independent Director (who is also the Remuneration Committee Chairman) also engaged with certain major shareholders by way of meetings and calls. There is also regular communication with institutional investors by the Company Secretary and senior management.

During 2019, we have engaged with investors on a range of topics, including:

- Governance including Board composition
- Executive remuneration and our proposed new Directors' Remuneration Policy – see pages 100 to 110
- Human rights and ethical trading
- The environment, sustainability and responsible sourcing
- Company performance against its strategy

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 on market reaction and investor views after full and half year results announcements and investor roadshows
- Reports from the Chairman and other non-executive directors who have direct dialogue with shareholders
- Analyst/broker reports and views
- Shareholder feedback reports and statements made by representative associations

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.

The interests of investors were considered as part of the Board's decisions throughout the year including with regard to the interim and final dividends and the continuation of our share buyback programme.

# NON-FINANCIAL INFORMATION STATEMENT

The table below sets out where the information required to be disclosed under sections 414CA and 414CB Companies Act 2006 can be found in this Annual Report.

| Reporting requirement | Relevant information | Policies and Standards |
|---|---|---|
| Information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to: | | |
| **1. Environmental matters (including the impact of the Company's business on the environment)** | • Our principles – page 66<br>• Environment – pages 70 and 71<br>• Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 75 | • Environment Policy<br>• Timber Sourcing Policy*<br>• Protecting Forests Through Fabric Choices Policy* |
| **2. The Company's employees** | • Our principles – page 66<br>• Our People – page 66<br>• Section 172 Statement – Having regard to the interests of the Company's employees – pages 73 and 74 | • Staff Handbook<br>• Diversity Policy<br>• HR Policies including Flexible Working, Safeguarding, Adoption Leave, Parental Leave, Continuing Education and Equal Opportunities<br>• Whistleblowing Policy<br>• Group Health and Safety Policy* |
| **3. Social matters** | • Our principles – page 66<br>• Our People, Our Suppliers, Our Customers and Products, Environment, Community, Human Rights and Modern Slavery – pages 66 to 72<br>• Section 172 Statement: Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct – page 76 | |
| **4. Respect for human rights** | • Our principles – page 66<br>• Human Rights and Modern Slavery – Page 72<br>• Section 172 Statement – Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct – page 76 | • Human Rights and Modern Slavery Policy*<br>• Data Retention Policy<br>• Customer Privacy Policy*<br>• Employee Data Privacy Policy |
| **5. Anti-corruption and anti-bribery matters** | • Our principles – page 66<br>• Section 172 Statement – Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct – page 76<br>• Whistleblowing – Audit Committee Report page 95 | • Staff Handbook<br>• Anti-Bribery Policy*<br>• Competition Law Policy<br>• Supplier Code of Practice Standards*<br>• Whistleblowing Policy* |
| Required information | | |
| **6. Business model** | • Business model – page 54 | |
| **7. Policies in relation to (1) to (5) above, related due diligence processes and a description of the outcome of those policies*** | • Our principles – page 66 | |
| **8. Principal risks in relation to (1) to (5) above** | • Risks and Uncertainties – pages 60 to 64<br>• Viability assessment – page 65 | |
| **9. Relevant non-financial KPIs** | • Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 75<br>• Our People, Environment, Community – pages 66, 70 and 71 | |

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

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

On behalf of the Board

**Amanda James**
Director

19 March 2020

# GOVERNANCE


80 Directors' Biographies
82 Directors' Responsibilities Statement
83 Corporate Governance Report
90 Nomination Committee Report
91 Audit Committee Report
96 Remuneration Report
122 Directors' Report
124 Independent Auditor's Report

# DIRECTORS' BIOGRAPHIES
## Directors and Officers

### Michael Roney
**CHAIRMAN**

KEY SKILLS AND EXPERIENCE:
Michael joined the Board as Deputy Chairman in February 2017 and became Chairman in August 2017. Michael brings significant international leadership experience to the Board; 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.

PRINCIPAL EXTERNAL APPOINTMENTS:
Chairman of Grafton Group plc
Non-Executive Director of Brown-Forman Corporation (US firm)

APPOINTED TO THE BOARD
February 2017

COMMITTEE MEMBERSHIP
Remuneration and
Nomination (Chairman)

### Lord Simon Wolfson of Aspley Guise
**CHIEF EXECUTIVE**
Executive Director

KEY SKILLS AND EXPERIENCE:
Simon brings deep knowledge of all areas of the NEXT business, together with strong leadership and strategic expertise, having led as Chief Executive since 2001. He 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 before his appointment as Chief Executive.

APPOINTED TO THE BOARD
February 1997

### Amanda James
**GROUP FINANCE DIRECTOR**
Executive Director

KEY SKILLS AND EXPERIENCE:
Amanda brings extensive financial knowledge to the Board, having joined the Group in 1995 and 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
April 2015

### Jane Shields
**GROUP SALES AND MARKETING DIRECTOR**
Executive Director

KEY SKILLS AND EXPERIENCE:
Jane has profound understanding of NEXT's operations, having 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.

APPOINTED TO THE BOARD
July 2013

### Richard Papp
**GROUP MERCHANDISE AND OPERATIONS DIRECTOR**
Executive Director

KEY SKILLS AND EXPERIENCE:
Richard has a wealth of operational and merchandising experience. He 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
May 2018

## Francis Salway

### Senior Independent Non-Executive Director

KEY SKILLS AND EXPERIENCE:
Francis brings strong listed company experience and property expertise to the Board. He was Chief Executive of Land Securities plc, then the UK's largest commercial property company, between 2004 and 2012. In addition to his roles below, he is also a Visiting Professor in Practice at the London School of Economics and a past President of the British Property Federation.

PRINCIPAL EXTERNAL APPOINTMENTS:
Director of Peabody Trust
Chairman of Town & Country Housing Group
Chairman of the Property Advisory Group for Transport for London
Non-Executive Director of Cadogan Group Limited

APPOINTED TO THE BOARD
June 2010

COMMITTEE MEMBERSHIP
Audit, Remuneration (Chairman) and Nomination

## Jonathan Bewes

### Independent Non-Executive Director

KEY SKILLS AND EXPERIENCE:
After qualifying as a Chartered Accountant with KPMG, Jonathan spent 25 years as an investment banking adviser, with Robert Fleming, UBS and Bank of America Merrill Lynch. As a senior banker, he provided advice to the boards of many UK and overseas companies on a wide range of financial and strategic issues, including financing, M&A, shareholder engagement and corporate governance. Jonathan is a Fellow of the Institute of Chartered Accountants of England and Wales.

PRINCIPAL EXTERNAL APPOINTMENTS:
Vice Chairman, Corporate and Institutional Banking, Standard Chartered Bank
Non-Executive Director of The Sage Group plc

APPOINTED TO THE BOARD
October 2016

COMMITTEE MEMBERSHIP
Audit (Chairman), Remuneration and Nomination

## COMPANY SECRETARY

## Seonna Anderson

## Tristia Harrison

### Independent Non-Executive Director

KEY SKILLS AND EXPERIENCE:
Tristia is Chief Executive Officer of TalkTalk Telecom Group PLC and as such has experience of running a large-scale consumer facing company and knowledge of digital and cyber security. Tristia was Managing Director of TalkTalk's consumer business when it demerged from Carphone Warehouse, which she joined in 2000 and held a number of senior management and executive positions.

PRINCIPAL EXTERNAL APPOINTMENTS:
Trustee at Comic Relief
Trustee at Ambitious about Autism

APPOINTED TO THE BOARD
September 2018

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

## Dame Dianne Thompson

### Independent Non-Executive Director

KEY SKILLS AND EXPERIENCE:
Dianne has a wealth of marketing experience gained in retail companies as well as significant senior management experience. Her 42 year career has included 14 years as Chief Executive Officer of Camelot Group. More recently she was Chairman of RadioCentre and a non-executive director of the Home Office.

PRINCIPAL EXTERNAL APPOINTMENTS:
Chairman and Non-Executive Director 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' 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.

Each of the directors, whose names and functions are listed on pages 80 and 81, confirm that to the best of their 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 Strategic 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.

On behalf of the Board

**Lord Wolfson of Aspley Guise**
Chief Executive

**Amanda James**
Group Finance Director

19 March 2020

# CORPORATE GOVERNANCE REPORT
## Chairman's Introduction

It has been a fast-moving year in corporate governance; as with the retail environment in which we operate, the governance arena is constantly evolving.

This is our first Annual Report since the introduction of the new disclosure requirements with regard to stakeholder engagement. A revised UK Corporate Governance Code, published in 2018, applied to the Company for the first time in 2019/20 and you can read about how we have complied with the updated principles throughout this Governance section. Additionally, we consulted with investors on our Remuneration Policy in line with the three year cycle; our proposed Policy will be put to shareholders for approval at the 2020 AGM.

### Stakeholder engagement

We recognise the importance of the role that good governance plays in NEXT's success. Companies do not exist in isolation and stakeholder trust is increasingly important to the success of a company.

During the year, we considered our approach to engaging with the Company's stakeholder groups and in particular with our workforce. We understand the value of incorporating stakeholder views when considering our strategic planning and decision-making. You can read more about who our stakeholders are and our approach to stakeholder engagement on pages 73 to 76.

### Culture

The NEXT culture is one of openness and transparency, with a strong focus on high expectations and standards, honesty and integrity. The Board have given particular focus this year to culture and you can read more on the following page.

### Board effectiveness and diversity

To deliver sustained value to our shareholders, employees and wider stakeholders, the Board must function effectively in supporting and guiding management to deliver the Company's strategy. We therefore conduct an annual evaluation of the Board's effectiveness.

Having undertaken an externally-facilitated annual effectiveness review of our Board and Committees in the previous year, this year's review was facilitated internally. Diversity of knowledge, skills and experience was highlighted as one of the Board's strengths, along with collaborative decision-making. Further details of this review and its insights can be found on page 88.

At NEXT we benefit from well-balanced gender representation on our Board, and indeed across the organisation, as illustrated by the table on page 66. This diversity mix allows for rounded discussions from various perspectives that strengthen our decision-making.

### Directors' remuneration policy

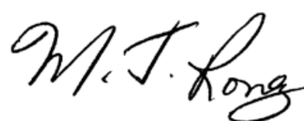
This year we are proposing our revised Directors' Remuneration Policy for shareholder approval at our 2020 AGM. This has been developed taking into account the views of major shareholders with whom we have engaged. The policy reflects our desire to attract, motivate and retain talented executives who can execute our strategy successfully and balance the risks and opportunities inherent in a fast-paced and challenging external environment. You can read more about our proposed Policy in the Remuneration Report on pages 96 to 110.

### Search for a new non-executive director

During the year, the Board commenced a search process for a new non-executive director to replace Francis Salway, our Senior Independent Director and Chairman of the Remuneration Committee, who has served on our Board for over nine years. A number of candidates were shortlisted but, as explained in the Nomination Committee report, towards the end of the year the Board decided to restart the process with a renewed consideration of the skills and attributes required to maintain a strong and balanced Board. It is extremely important to us that we find the right person who will make a significant contribution to the success of NEXT. We look forward to the successful conclusion of our search process during 2020.

### Continuing governance commitment

Understandably, environmental, social and governance (ESG) considerations are increasingly becoming a key area of focus for stakeholders. NEXT is mindful of the impact its operations have on the environment and the communities in which it operates. In this year's annual report we have increased our ESG disclosures and we produce a Corporate Responsibility Report each year (available on our website at www.nextplc.co.uk) which covers these areas in more detail. We remain committed to applying robust governance to safeguard the long term interests of the Company and its stakeholders. You can read our compliance statement and supporting disclosures on pages 84 to 89.



**Michael Roney**
Chairman

19 March 2020

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Statement

The statement below, together with the rest of the Corporate Governance Report, provides information to aid understanding of how the Company has applied the principles in the UK Corporate Governance Code 2018 (the "Code"), which is the version of the Code that applies to its 2019/20 financial year.

For the year ended 25 January 2020, the Board considers that it has complied in full with the provisions of the Code, available 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 Directors' Report on page 122. Disclosures required by DTR 7.2.8 relating to diversity policy are presented in the Nomination Committee Report on page 90.

Directors' biographies and membership of Board Committees are set out on pages 80 and 81.

## BOARD LEADERSHIP AND COMPANY PURPOSE

### Review of business model

The Group's business model is set out on pages 54 and 55. This describes how the Group generates and preserves value over the long term. The Board keeps this model, and its long term sustainability, under review and supports management in assessing opportunities and risks to the future success of the business. It does this through:

- Discussions with the executive directors and other members of the senior management team on industry trends
- Evaluating strategic proposals and considering how these will support and strengthen components of the business model
- A policy of continuous identification and review of principal business risks, including identifying key and emerging risks, determining control strategies and considering how those risks may affect the achievement of business objectives, taking into account risk appetite, as detailed on pages 58 and 59
- Our annual viability assessment which is undertaken by reference to the business model, strategy and the principal risks and mitigating factors as well as the current financial position and historical financial performance and forecasts – see page 65

In a fast-changing industry increasingly enabled by technological advances, the Board retains a long term view of value creation being mindful of wider corporate social responsibilities. The governance provided by the Board and its Committees enables rounded and balanced oversight, robust yet constructive challenge and guidance to management in evaluating strategic proposals and threats to either the execution of the strategy or to the success of the business model.

### Culture

The Board recognises the importance of ensuring a healthy and supportive culture within the Group. We monitor this through direct employee engagement activities (see page 74) and discussions with the executive directors, Group HR Director and other members of management. We assess and monitor this in the following ways:

- Dedicated time at Board meetings, supported by the Group HR Director, to hold discussions on culture and employee/workforce matters
- Reviewing the results of the Group's employee opinion surveys
- Monitoring the levels and nature of whistleblowing reports and grievance and disciplinary hearings
- Monitoring absenteeism and employee turnover
- Audit Committee receiving internal audit reports on fraud and compliance breaches
- Review of induction and training policies and practices
- Engaging with employees directly during site visits
- Overseeing management's plans to respond to matters raised by the workforce
- Reviewing the Group's key policies and HR initiatives

The Corporate Responsibility Report sets out our values on page 66 and the Non-Financial Information Statement summarises the Company's supporting policies on page 77. The Group's Whistleblowing Policy encourages workers to report concerns or suspicions about any wrongdoing or malpractice, and provides a number of procedures to do this including via the confidential NEXT Integrity line (managed by Crimestoppers) or through a dedicated, monitored, email address. The Audit Committee report contains more details of the Company's whistleblowing procedures and the Audit Committee's oversight.

The Board members also strive, through their own behaviours, to set a strong example for management and the wider workforce in conducting themselves appropriately and in line with the Group's values and supporting policies.

Information on the Company's approach to investing in and rewarding its workforce is set out in the Strategic Report on pages 66 and 67.

### Resourcing

The Board ensures that the necessary resources are in place for the Company to meet its objectives and measure performance against them. The Board has an integral role in the Company's budget setting and capital allocation processes, and in monitoring availability of credit/debt capital facilities and the Company's credit ratings. The Board also receives reports from management on any development gaps in key roles and the plans to address these.

### Risk management and internal controls

The Board is responsible for keeping the effectiveness of the systems of risk management and internal controls under review – see page 89.

## Engagement 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. The Chief Executive and Group Finance Director engage directly with investors on a regular basis throughout the year. 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 the Company's corporate website nextplc.co.uk.

Our Section 172 Companies Act statement on page 76 details how the views of shareholders have been taken into account during the year.

## Engagement with other stakeholders

Although 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. Please see the Section 172 Companies Act statement on pages 73 to 76 for information on how the Board does this.

With regard to engagement with the workforce, the Board uses various methods including engagement with a workforce panel and attendance by a non-executive director at those panels. More details can be found in the Section 172 statement on page 74. The Board considers that, taken together, the arrangements described deliver an effective means of ensuring the Board stays alert to the views of the workforce.

# DIVISION OF RESPONSIBILITIES

## Independence of non-executive directors

Half of the directors, excluding the Chairman, are non-executive directors. The Board considers that all of its non-executive directors, except for the Chairman, are independent when assessed against the requirements of the UK Corporate Governance Code and their knowledge, diversity of experience and other business interests continue to enable them to contribute significantly to the work of the Board. Michael Roney, the Chairman, met the independence requirements set out in the Code on his appointment in 2017.

Francis Salway was appointed to the Board in June 2010 and has therefore served as a director for more than nine years. Despite this tenure, the Board considers that Francis remains independent as he meets all of the other criteria specified in the Code and continues to demonstrate objectivity and constructive challenge as a director, as Chairman of the Remuneration Committee and as a member of the Nomination and Audit Committees. We engaged with major shareholders in February 2020 with regard to Francis' continuing tenure; please see the Nomination Committee report on page 90 with regard to consideration of the extension of Francis' tenure. The Board approved his continuation in office until the AGM in May 2021, subject to his re-election by shareholders at the 2020 AGM. Francis' continuation in office will support an orderly succession of his role as Remuneration Committee Chairman once a replacement has been selected and, until then, will allow the Board to retain a diversity of experience through continuing access to Francis' considerable knowledge.

## 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.

## Noting of directors' concerns

The Chairman encourages openness and debate at Board meetings which leads to better decision making. Should any director have concerns about the operation of the Board or the management of the Company that cannot be resolved, such concerns would ordinarily (and especially if requested by that director or the Chairman) be recorded in the minutes of the relevant meeting. If, on resignation, any non-executive director had any such concerns they would be invited to provide a written statement to the Chairman that would be circulated to the Board. No concerns have been raised in the year.

## Senior Independent Director

Francis Salway is the Company's Senior Independent Director. In this role Francis is available to provide a sounding board for the Chairman and to serve as an intermediary for the other directors and shareholders.

## Review of directors' performance

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.

At each Board meeting the Board receives reports on, and discusses, the performance of the business. This includes scrutiny of the performance of the executive directors against clear financial objectives.

The Chairman held meetings during the year with the non-executive directors without the executive directors present, which included discussions on the performance of and succession for the executive directors.

## 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.

# CORPORATE GOVERNANCE REPORT

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.

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.

## 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. The Board considers that the Company's 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.

## Matters reserved to 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
- 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

### Overview of governance structure

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.

## Board Committees

As detailed in the governance structure diagram opposite 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 the Company's corporate website nextplc.co.uk. The Chair of each Committee reports regularly to the Board on how that Committee has discharged its responsibilities.

## Board attendance

The table below shows the attendance at Board and Committee meetings during the year to 25 January 2020. All of the independent non-executive directors are members of the Nomination, Audit and Remuneration Committees. We believe that this provides an important opportunity for the 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.

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.

| Current Directors | Role | Board | Nomination | Audit | Remuneration |
|---|---|---|---|---|---|
| Number of meetings held in the year | | 8 | 4 | 4 | 6 |
| Lord Wolfson | Chief Executive | 8/8 | – | – | – |
| Amanda James[1] | Group Finance Director | 8/8 | – | – | – |
| Richard Papp | Group Operations & Merchandising Director | 8/8 | – | – | – |
| Jane Shields | Group Sales & Marketing Director | 8/8 | – | – | – |
| Michael Roney[1] | Chairman | 8/8 | 4/4 | – | 6/6 |
| Francis Salway | Senior Independent Director | 8/8 | 4/4 | 4/4 | 6/6 |
| Jonathan Bewes | Non-executive director | 8/8 | 4/4 | 4/4 | 6/6 |
| Tristia Harrison[2] | Non-executive director | 8/8 | 4/4 | 3/4 | 6/6 |
| Dame Dianne Thompson | Non-executive director | 8/8 | 4/4 | 4/4 | 6/6 |

1. Michael Roney and Amanda James are not members of the Audit Committee, however they attend Audit Committee meetings during the year by invitation.
2. Due to unavoidable circumstances, Tristia Harrison was unable to attend the September Audit Committee meeting. In advance of the meeting, Tristia reviewed the meeting papers and communicated her comments to the Company Secretary and Committee Chairman who ensured these were considered at the meeting. Tristia was also provided with an update after the meeting.

## External appointments during the year

As announced in January 2019, Dame Dianne Thompson joined the Board of Walker Greenbank plc in February 2019 as a non-executive director and chairman designate, becoming chair in April 2019.

Jonathan Bewes was appointed as a non-executive director and the chair of the audit and risk committee of Sage Group plc with effect from 1 April 2019. In addition he holds a non-board position at Standard Chartered Bank.

After considering each of these appointments, the likely time commitment required to fulfil these roles and the other appointments held by these directors, the Board were satisfied that such appointments should not inhibit the ability for Dame Dianne and Jonathan to continue to effectively discharge their respective duties and responsibilities as directors of NEXT.

## 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. Any decision to appoint or remove the Company Secretary is a matter reserved to the Board.

The Company has an open culture and its 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 120.

# CORPORATE GOVERNANCE REPORT

## COMPOSITION, SUCCESSION AND EVALUATION

### Director appointments and the Nomination Committee

For information on the procedure for appointment of new directors to the Board (including the use of external search firms), and the role of the Nomination Committee in this process, refer to the Nomination Committee Report on page 90. The Nomination Committee Report also describes the work of the Committee in succession planning for Board and senior management positions, as well as information on the Company's diversity approach.

### Board composition and re-election

The Board currently includes four independent non-executive directors (including the Senior Independent Director) and the Chairman who all bring considerable knowledge, skills and experience to the Group. The current director skills matrix is included in the Nomination Committee Report on page 90. As is best practice, the Board is continually assessed and periodically refreshed to ensure it maintains an appropriate balance of skills and experience. The Board recruits new non-executive directors at regular intervals to achieve appropriate rotation and continuity.

There were no changes to the Board during the year.

The Company is currently undertaking a search process for a new non-executive director. As discussed above with regard to independence of non-executive directors, the Board has approved Francis Salway's continuation in office until the AGM in May 2021, subject to his re-election by shareholders at the 2020 AGM. This will allow the Board to continue to benefit from Francis' valuable experience and will support an orderly succession of his role as Remuneration Committee Chairman once a successor has been selected.

### Re-election of directors

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.

The specific reasons why the Board considers that each director's contribution is, and continues to be, important to the Company's long term sustainable success are set out in the directors' biographies on pages 80 and 81.

### Board 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 the Group's 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.

### Board effectiveness evaluation

During the year an internal evaluation of the Board, its Committees and directors was undertaken, facilitated by the Company Secretary. The evaluation process took place in the final quarter of the year. Following a briefing provided by the Chairman and Company Secretary, each of the directors was issued with a questionnaire prepared by the Company Secretary designed to elicit the views and opinions of individual directors on all aspects of the effectiveness of the Board and its Committees. These included 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, as well as covering progress with the areas for development identified in the previous year's external evaluation.

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

- The diversity of skills, experience and knowledge on the Board
- A valuable and thorough induction programme for new directors

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

- Clearer articulation of the Board's risk appetite
- Further consideration and communication of the succession and development plans for Board and senior management

The Chairman and Company Secretary are putting in place appropriate action plans in response to the evaluation findings and will review progress during the course of 2020/21.

# AUDIT, RISK AND INTERNAL CONTROL

## Audit Committee and independent auditor

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 94 and 95.

Please also refer to:

- Page 130 for details of the independent auditor's responsibilities
- Page 82 for the Board's statement on the Annual Report and Accounts being fair, balanced and understandable

## 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 28 of the financial statements.

Shortly before signing the Annual Report and Accounts it became clear that the impact of the Coronavirus could become significant. The directors have reviewed the current financial performance and the liquidity of the business, and assessed its resilience to a reduction in sales through a series of stress tests. Further details of the assessment are provided in the Chief Executive's Review.

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 65.

## 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.

Risk management and internal control is a continuous process and has been considered by the Board on a regular basis throughout the year (see the description of the Group's risk management and internal control framework on page 58 for more information). This includes identifying and evaluating principal and any emerging risks, determining control strategies and considering how they may impact on the achievement of the business objectives.

The Board has carried out a robust assessment of the principal and emerging 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 59 in the Strategic Report for further information.

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 60 to 64) and the associated financial, operational and compliance 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.

# REMUNERATION

The Company's remuneration policies and practices are designed to support strategy and promote long term sustainable success. The Board considers that they are aligned to the Company's purpose and values and linked to the successful delivery of the Company's long term strategy. You can read about the Company's proposed new remuneration policy, including the process of its development, and the work of the Remuneration Committee in the Remuneration Report on pages 96 to 121.

The Remuneration Report also contains information on the Company's compliance with the Code provisions relating to remuneration.

# NOMINATION COMMITTEE REPORT

## Membership and meetings

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

| Member |
|---|
| Michael Roney (Committee Chairman) |
| Jonathan Bewes |
| Tristia Harrison |
| Francis Salway |
| Dame Dianne Thompson |

The Committee member attendance table is shown on page 87. 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 were updated during the year and 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. Having been externally facilitated in 2018/19, an internal process was undertaken in 2019/20. Further details are set out on page 88. The review concluded that the Committee continues to operate effectively.

## Committee activities in 2019/20

### Succession planning

During the year the Committee considered the succession arrangements for the Board and for each of the operational directors below Board level. 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Retail/Commercial/Operational | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Cyber risk/Digital | ✓ | ✓ | | | | | | |
| Brand/Marketing | ✓ | ✓ | ✓ | ✓ | | | | |
| Former/Current CEO | ✓ | ✓ | ✓ | ✓ | ✓ | | | |
| Property | ✓ | ✓ | | | | | | |
| Listed market experience and governance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Finance/Accounting | ✓ | ✓ | | | | | | |

As stated in last year's annual report, it was intended that Francis Salway would step down from the Board immediately after the 2020 AGM, having been appointed in 2010. Having identified the need for a non-executive director to replace Francis as non-executive director and Chair of the Remuneration Committee, the Committee engaged an external search firm, Heidrick & Struggles/JCA Group (JCA), to assist with the search and appointment process. JCA has no other connection with the Company. A comprehensive specification for the desired candidate was agreed and the role brief was aligned to the desired Board and Committee composition with reference to diversity, the skills matrix, and governance principles for candidates to have at least 12 months' experience on a remuneration committee.

The Committee recognises that governance is an ethos rather than a tick box exercise and, in this increasingly complex governance arena, occasionally we have to balance conflicting governance requirements.

Having considered feedback from interviews with short-listed candidates, and mindful of its responsibility to appoint on merit suitably strong members to the Board, the Nomination Committee decided to recommence its search. To ensure that we continue to have an appropriately independent Board, and to enable an orderly handover once the right candidate has been found, the Board asked Francis to remain on the Board for a further year until the 2021 AGM. In doing so, the Committee took into account:

- The results of the Board performance evaluation, which confirmed that Francis remained appropriately independent and that he continued to make a significant contribution to the Board, particularly in his role as Remuneration Committee Chairman throughout the remuneration policy renewal process
- The fact that Francis met all other independence criteria set out in the UK Corporate Governance Code
- The average tenure of the non-executive directors at four years, with the newest non-executive director having been appointed in September 2018. Therefore, the independence of the Board as a whole was unlikely to be compromised by the extension of Francis' term
- The importance of continuity and the value that experienced directors can bring to the Board and the Group

### 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 to the Board for final approval. The Nomination Committee is led by the Senior Independent Director when dealing with the appointment of a successor to the Board chairmanship.

### 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 joint third in the 2019 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 66.

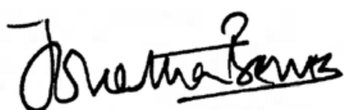
# AUDIT COMMITTEE REPORT
# Chairman's Introduction

On behalf of the Board, I am pleased to present the Audit Committee's report for the year ended January 2020. This report explains the Committee's role and its work during the year. In particular, the Committee has continued to challenge and consider the principal risks of the business in light of how the business has evolved and the challenging external environment.

As noted in the Strategic Report, the customer shift away from Retail and towards the NEXT Online Platform continued in 2019. This trend impacts the risk profile of the Company and, accordingly, during the year the Committee continued to focus on data and cyber security risk. The maturity of the Group's cyber programme continues to improve, reflecting the Group's significant investment over the past few years, although we recognise that cyber security is a constantly evolving risk. The Committee also received updates on aspects of the NEXT Finance credit business, compliance with FCA regulations and an update on warehousing and distribution logistics.

The new accounting standard on leases (IFRS 16), which applies to NEXT for the first time for the year ended January 2020, was reviewed by the Committee and is disclosed in our financial statements. The Group has adopted the fully retrospective approach and consequently has restated prior year comparatives. Further details can be found in the Group Accounting Policies section of the financial statements.

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

19 March 2020

## Membership and meetings

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

| Member |
|---|
| Jonathan Bewes (Committee Chairman) |
| Tristia Harrison |
| Francis Salway |
| Dame Dianne Thompson |

The Committee member attendance table is shown on page 87.

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 sector. Further details of the directors' skills, experience and qualifications can be found in the biographies on pages 80 and 81.

The Committee's roles and responsibilities are covered in its terms of reference which are available on our corporate website at nextplc.co.uk. Updated terms of reference, which incorporated changes arising from the 2018 Corporate Governance Code, were approved by the Board during the year.

During the year, the Committee held four scheduled meetings. The Group Finance Director and Chairman attended all of this year's meetings by invitation. The Committee meets without management present on a regular basis, and meets privately with each of the Head of Internal Audit and the external auditor as necessary and at least annually. Executive directors and senior managers are invited to attend Committee meetings regularly 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 was undertaken as part of the Board evaluation process. During 2019/20 this process was facilitated internally, and further details are included on page 88. The review concluded that the Committee operates effectively.

Of course, we strive for continuous improvement and evaluations provide an opportunity to develop the Committee's effectiveness further. Suggestions from the 2018/19 external evaluation have been implemented during the year, including the production of a risk assurance map to complement the existing risk assurance framework.

# AUDIT COMMITTEE REPORT

## Role of the Committee

The Committee focuses on ensuring the integrity of the financial reporting and audit processes and the maintenance of sound internal control and risk management systems in order to safeguard shareholder interests. In particular, it focuses on monitoring and/or reviewing:

- The integrity of financial and narrative reporting
- The viability and going concern statements
- NEXT's systems of risk management and internal control
- The activities and effectiveness of the internal audit function
- The effectiveness of whistleblowing arrangements
- The effectiveness of the external audit process and the appropriateness of the relationship with the external auditor

## Committee activities during 2019/20

### 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 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 (2020: Gross value £1.4bn and allowance for expected credit losses of £172.0m).<br><br>Based on detailed reports and thorough discussions with management and the external auditor, the Committee reviewed and assessed the basis and level of provisions under IFRS 9 "Financial instruments" standard methodology and their sensitivity and is satisfied that the judgements made were reasonable and appropriate. | Note 13 |
| 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.<br><br>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 27 and 28 |
| 3. Pension scheme funding and accounting | The Group's Balance Sheet shows a funding surplus of £133.4m (2019: £125.0m), comprised of £1,027.3m assets and £893.9m defined benefit pension schemes obligation.<br><br>Pension scheme funding, accounting and actuarial reports have been prepared in accordance with International Accounting Standards.<br><br>The Committee reviewed the actuarial assumptions underlying the calculations, discussed with the auditor its view on these assumptions, 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 20 |
| 4. Inventory valuation | The Group Balance Sheet shows a net valuation of £527.6m. Taking into account the results of the external auditor's work on inventory, 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 134 |

| Area of focus | Background and details | Reference to financial statements |
|---|---|---|
| 5. Accounting for leases | The Group has retrospectively applied IFRS 16 "Leases" with effect from the 2019/20 financial year. The work to collect the relevant data, implement a new accounting system and agree the appropriate accounting policies and disclosures has been significant. During the year the Committee and PwC reviewed all aspects of IFRS 16 adoption and is satisfied that the methodology used and the judgements and assumptions applied are reasonable. | Page 147 |

## 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 September 2019 and followed up in March 2020 by reviewing the Group's financial position and performance, budgets for 2020/21 and three year cash projections which were stress tested under different scenarios having regard to the principal risks faced by the business.

In addition, specific consideration was given to the potential risks associated with the Coronavirus. This included a review of the stress tests prepared by management. The stress tests set out the possible cash impact for different levels of sales decline. It then sets out the measures which the business could take to control costs, conserve cash and meet its liabilities as they fall due. The Audit Committee reviewed the key assumptions within the stress test and assessed the viability of the counter measures identified by the business.

Further details of the Coronavirus stress test and the viability assessment are provided in the Chief Executive's review and the Viability Statement. In addition, the Committee reported to the Board that, in its view, the going concern assumption remained appropriate.

## Fair, balanced and understandable

At the request of the Board, the Committee undertook an assessment as to whether, in its view, the Annual Report and Accounts were fair, balanced and understandable, and provided the necessary information for shareholders to assess NEXT's position and performance, business model and strategy. In forming its opinion, the Committee considered the results of management's assessment of going concern, reviewed the Annual Report and Accounts as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented. These processes included, but were not limited to:

- Review by senior management of the Annual Report to ensure that the information presented was accurate and that the narrative was consistent with the fact pattern
- Monthly Board meetings where the management accounts and KPIs were reviewed to ensure that the business performance was appropriately assessed, reported and understood
- Discussion with senior management of any significant judgements or estimates made by management in preparing the Annual Report

The views of the external auditor on this matter were also considered by the Committee. Having completed its assessment, the Committee reported to the Board that it was able to make the corresponding confirmation in its directors' responsibility statement.

## Risk management and internal control

While the Board retains ultimate responsibility for risk management, the Committee reviews the overall effectiveness of risk management within the business on a regular basis, and at least annually. During the year the Committee reviewed the key current and emerging risks, together with the associated controls and mitigating factors. At each meeting during the year, the Committee received presentations from management detailing risks and risk management in individual areas of the business.

Further details regarding the risk framework and approach, together with details of NEXT's principal risks and risk assessment can be found on pages 58 to 64.

During the year the Committee:

- Received regular updates from the IT and operations teams covering various aspects of IT and cyber security
- Reviewed the results of Ernst & Young's independent cyber security maturity assessment
- Considered updates from the warehousing & distributions and product merchandising businesses covering current and anticipated risks together with corresponding mitigating actions
- Reviewed the risk appetite for data protection and agreed a revised method of capturing residual data protection risk exposure and controls
- Reviewed the Brexit preparations and plans for the business to operate effectively if the UK and EU are unable to agree a trade agreement by December 2020
- Reported to the board on our evaluation of the effectiveness of the Group's systems of internal control and risk management, informed by reports from internal audit and PwC

# AUDIT COMMITTEE REPORT

## IT systems and cyber security

The Committee continued to receive regular updates from the IT and operations teams covering various aspects of IT and cyber security during the year. These included a cyber security assessment progress update performed by Ernst & Young LLP, which assessed the maturity of the Group's systems and provided recommendations for further reinforcement, and updates from the compliance team on developing a roadmap for further risk reduction.

## Warehousing and logistics

The operations of the Group are 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 80% 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 received updates from our warehousing and logistics directors covering current and anticipated risks together with corresponding mitigating actions and reviewed progress on a significant four year warehouse expansion and reorganisation project commenced in 2018.

## Other risk management 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:

- Regulatory compliance and developments in relation to our consumer credit business
- Business continuity
- Code of Practice supplier audits (including ethical compliance)
- Anti Money Laundering
- Health and safety
- Pensions
- Taxation

## Internal audit

During the year the Committee:

- Reviewed the level of internal audit resource, experience and expertise and concluded that it was 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 ensuring that it was aligned to the key risks of the business
- Received an update at each Committee meeting from the Head of Internal Audit on the internal audit work performed and the results
- Met the Head of Internal Audit without management present to discuss the internal audit plan and resources

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 audit results

Using a structured framework, the Committee considered the effectiveness of the internal audit function. It did so by considering the function's purpose and remit, organisation, processes, people and expertise, and performance and communication. The Committee is satisfied that the internal audit function has continued to perform effectively during the year. The Committee received regular updates about progress against the areas of improvement identified.

## External auditor

The Audit Committee is responsible for recommending to the Board the appointment, re-appointment, remuneration, and removal of the external auditor. A resolution to propose the re-appointment of PwC was approved by shareholders at the 2019 AGM. When considering whether to recommend the re-appointment of the external auditor, the Committee considers a range of factors, including the effectiveness of the external audit, the period since the last audit tender was conducted, and the ongoing independence and objectivity of the external auditor.

## Independence and objectivity

PwC conducted its first audit of NEXT's financial statements in 2018, following a competitive tender process. Andrew Lyon, the Lead Audit Partner, has held his position since that time, and will serve a maximum term of five annual audit cycles. The Committee will conduct an audit services tender at least every ten years to ensure that the independence of the external auditor is safeguarded.

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. When assessing the independence of the auditor, the Committee considers, amongst other things, the length of tenure of the audit firm and the audit partner, the value of non-audit fees provided by the external auditor, the relationship with the auditor as a whole, and management responses to the independence questions in the questionnaire conducted at the end of the audit process.

## 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. An updated policy was approved at the March 2020 Audit Committee meeting. In addition, during the year, PwC split its Assurance and Audit practice to create two distinct businesses. The split of these two practices is designed to support the continued development of high-quality, independent audits.

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 by the external auditor. In any one year the aggregate non-audit fees will not exceed £150,000 and, over a rolling three year period, such fees are limited to 50% of the average audit fee paid in the previous three years. 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 also ensure that the new regulatory cap on permitted non-audit services of 70% of the average Group audit fee paid on a rolling three year basis, effective for 2020/21, is not exceeded.

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. Non-audit fees related to services provided in relation to the issue of a bond, Corporate Responsibility Report assurance and turnover certificates. Further details are provided in Note 3 to the financial statements.

### Effectiveness and reappointment

It is the Committee's responsibility to assess the effectiveness of the external audit.

The Committee kept under review the effectiveness of the external audit throughout the year. It did this through:

- Reviewing audit plans early in the planning stages and discussing audit planning, audit quality, fees, accounting policies, audit findings and internal control with PwC
- Reviewing feedback from the parties involved in the external audit process, including PwC's report on its own internal quality procedures, the results of a survey completed by NEXT management on their experience with the external auditor in respect of areas such as audit strategy, professional scepticism, technical strength, communication, and planning, and high-level feedback from the Committee itself
- Reviewing the findings from the FRC's annual audit inspection and the actions PwC was taking as a consequence of the inspection, particularly in relation to the audit of retail companies
- Assessing the extent to which PwC had addressed the minor improvements identified by the FRC's Audit Quality Review team in respect of the 2017/18 audit
- Considering the areas in which PwC had challenged management's assumptions in key areas of judgement and the number and nature of the accounting and control observations raised by the auditor
- Considering the manner in which the audit was conducted and the audit areas in which most time was spent

The Audit Committee Chairman attended the audit close meeting between the external auditor and management to ensure that he was fully aware of:

- The issues that arose during the course of the audit and their resolution
- The level of errors identified during the audit
- The interaction between management and the auditor

The external auditor attended all of this year's Committee meetings.

Based on these reviews, the Committee concluded that PwC had applied appropriately robust challenge and scepticism throughout the audit, that it possessed the skills and experience required to fulfil its duties effectively and efficiently, and that the audit was effective.

Having reviewed the auditor's independence and the effectiveness of its audit, the Committee is satisfied that PwC should be re-appointed as external auditor for the 2020/21 financial year.

### Whistleblowing

The Company's whistleblowing procedures ensure that employees, suppliers and other third parties are able to raise concerns about possible improprieties on a confidential basis. Concerns can be raised by telephone or online to an independently provided service. The policy also allows concerns to be reported directly to the Audit Committee Chairman.

During the year, the Committee received updates at every meeting 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.

## 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 25 January 2020.

# REMUNERATION REPORT

Contents


| | |
|---|---|
| Part 1: Annual Statement from the Remuneration Committee Chairman | page 96 |
| Part 2: Proposed Remuneration Policy | page 100 |
| Part 3: Annual Remuneration Report | page 110 |


## Remuneration compliance

This report complies with Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008, as amended in 2013 and 2018, the 2018 UK Corporate Governance Code and the Listing Rules.

**References to Profit Before Tax (PBT) and Earnings Per Share (EPS) in this Remuneration Report do not reflect the impact of IFRS 16 (Leases).**

# 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 2019/20.

## Pay and performance outcome for 2019/20

### Total remuneration

Remuneration structures for NEXT's executive directors are simple and the principles which underlie them are applied at management levels below the Board and understood within the business. Our Policy provides for potential total remuneration below the median levels for companies of our size and has a strong history of delivering value when performance merits this and of nil payouts when performance has been weaker. This is a direct consequence of our use of clear and objective financial performance measures, without the use of subjective, personal performance measures.

As outlined in our Strategic Report, NEXT performed well during the year in what continued to be an exceptionally challenging time for the retail sector. The executive directors helped to deliver profit before tax of £728.5m and EPS of 459.8p, outperforming prior year results by 0.8% and 5.6% respectively, and achieving a record high EPS for the Group. The share price reflected this strong performance both in isolation and as compared to our retail peers, increasing by 51% in the financial year and by 87% over the last three financial years.

This strong performance was reflected in the 2019/20 bonus awards and higher Long Term Investment Plan (LTIP) vesting rates (detailed below). As a consequence, and also due to the increase in the value of the LTIP from a higher share price, total annual remuneration earned by our executive directors in the financial year 2019/20 increased significantly on the prior year. The Remuneration Committee considers this an appropriate and proportionate outcome against the backdrop of the Company's performance.

### Annual bonus

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 2019/20 annual bonus, reflecting the prospects of the business in a UK retail market which was expected to remain very challenging.

The growth in pre-tax EPS in the year was above the threshold level set. In accordance with the bonus formula, a bonus of 29% of maximum was earned (resulting in a bonus of 29% of salary for the other executive directors and 44% for Lord Wolfson). This compares to the bonuses in 2018/19 of 40% for the other executive directors and 20% for Lord Wolfson, who had been entitled to 60% of salary but waived his entitlement to part of his bonus such that he received 20% of salary (being 13% of his maximum entitlement). Details of the targets set for 2019/20 are on page 111.

The Committee considered the above payments to be appropriate and approved them without the exercise of any discretionary adjustment for environmental, social, governance or other reasons.

### Long Term Incentive Plan

LTIP awards are currently granted twice a year (each at up to 100% of base salary for executive directors and so totalling up to 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 67% as NEXT's total shareholder return (TSR) ranked sixth out of 21 companies in the comparator group and the second vested at 100% as NEXT's TSR ranked third in the comparator group. Of the estimated total value of the two LTIP awards, 34% is due to the increase in share price.

During much of the performance periods for these LTIPs, the sector has been very challenging for all retailers. Due to the structural shift in spending from retail stores to online, the executives have had to take a fresh look at almost everything: the structure of our store portfolio, the in-store experience and the generation of alternative retail revenue streams, the management of our cost base, our sourcing, stock management, our online systems, ecommerce and digital marketing, and our Online platform. As a result of this review, challenges and opportunities have emerged and many of the steps management have taken have helped to bring about improvements in business performance.

The Committee concluded, after considering the economic underpin test, that the indicative levels of vesting according to the metrics of the scheme were appropriate and allowed such vestings without adjustment. Details of the economic underpin test are provided on page 113 and the comparator group is set out on page 116.

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 addressed the following matters during the year:

### Remuneration Policy renewal

Our current Directors' Remuneration Policy will reach the end of its normal three year life at the 2020 AGM and accordingly a new Policy will be submitted for shareholder approval at that meeting. The Committee has reviewed the current policy and, mindful of its responsibilities under Provision 40 of the UK Corporate Governance Code, determined that the Policy's structure remains aligned with the Company's strategy and purpose, and provides a strong and transparent link between pay and performance. The Policy is aligned to our values, 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.

As noted above, remuneration structures for NEXT's executive directors are simple and the principles which underlie these are applied at management levels below the Board and understood within the business. Our Policy provides for potential total remuneration below the median levels for companies of our size and has a strong history of delivering proportionate value when performance merits this and of nil payouts when performance has been weaker.

In light of this and after taking into account workforce remuneration and related policies, the Committee proposes only minor changes from our current Directors' Remuneration Policy, which we believe has served our shareholders well over many years.

The key changes are outlined below.

| | |
|---|---|
| **Share ownership guidelines** | These will increase from the current level of 200% of salary to 225%, consistent with the proposed increase in LTIP levels outlined below. |
| **Post-cessation shareholding guidelines** | Post-cessation shareholding guidelines are proposed to be introduced at the same level of 225% of salary for one year post-cessation. The Committee will have the normal discretion to disapply this in exceptional circumstances.<br><br>The post-cessation guidelines will apply and be enforced through the retention of any (after-tax) shares vesting in respect of 2020 LTIP grants onwards into an escrow account until an amount equal to 225% of salary is held. |
| **LTIP** | It is proposed to increase the level of LTIP grants from 200% to 225% of salary. Performance will continue to be wholly measured against relative TSR over a three year period. There will also continue to be a subsequent two year holding period. |
| **Pension** | Lord Wolfson has volunteered to cap the service accrual under his Defined Benefit (DB) pension annually so that the single figure value attributed to the DB portion of his pension is no more than 9% of salary (giving a single figure of DB pension and salary supplement in aggregate of up to 24% of salary). |

### Rationale for proposed changes

**Post-cessation shareholding guidelines**

The introduction of post-cessation shareholding guidelines was considered at length by the Committee, taking into account the sector in which the Company operates and feedback from investors. Within the fast-moving fashion retailing sector, the operational cycle is short and has become even shorter within recent years, with new clothing ranges at NEXT now released every six weeks on average, thereby reducing sharply the executive directors' control and influence over the future direction of the Company once they leave their role. However, the Committee acknowledged that post-cessation shareholding guidelines are being adopted as best practice and agreed to introduce such guidelines on a basis which respects this context.

The Committee also took into account the longevity of the executive directors' employment with NEXT (each of the executives has been at NEXT in excess of 24 years) and their high share ownership levels, which demonstrate full commitment to the Company and alignment with our shareholders.

# REMUNERATION REPORT

The Committee concluded that a one year holding period would be appropriate and recognises the potentially very significant impact of new fashion ranges on the underlying performance of the Group, a matter which no executive director will contribute to more than 12 months following his/her departure. The Committee also concluded that the post-cessation holding should be at a level consistent with the annual LTIP award and so at 225% of salary.

**LTIP**

The proposed increase in LTIP awards (from 200% to 225% of salary) is modest and still leaves NEXT executives in the lower quartile on total remuneration for FTSE 100 companies and FTSE 100 retailers, but it was felt to be appropriate in the context of comparative data and as a result of revising terms to introduce post-cessation guidelines. This will be the first increase in variable pay opportunity for many years and, indeed, follows prior falls as the withdrawal of the Share Matching Plan in 2014 led to a reduction in overall quantum.

The Committee will be seeking shareholder approval at the forthcoming 2020 AGM for changes to the Company's LTIP rules to permit the proposed increase in the percentage annual award described above.

**Pension**

The proposed position on pensions reflects the fact that NEXT has been leading on this issue, with more recent promotions to the Board having a 5% pension allowance. In addition, after introduction of the proposed cap on the service accrual under Lord Wolfson's Defined Benefit pension (see below), all of the executive directors will be on pension arrangements no more generous than those offered to the wider colleague population recruited at the same time as them so that the pension proposals align with the relevant all-employee populations.

Since shortly after joining NEXT in 1991, Lord Wolfson has been a member of a DB pension scheme, as was the normal practice at NEXT and across the market more widely at the time. In 2012, the value of Lord Wolfson's DB pension benefits was reduced when his salary was frozen for DB pension purposes and he began to receive a 15% salary supplement as part of this renegotiation of terms by the Company.

The Committee, and Lord Wolfson himself, are cognisant of an external view in the market that pension contributions of 25% or higher are "too much" and, to acknowledge this, Lord Wolfson has volunteered to cap the service accrual under his DB pension annually so that the single figure value attributed to the DB portion of his pension is no more than 9% of salary (giving a single figure of DB pension and salary supplement in aggregate of up to 24% of salary). The Committee is appreciative of Lord Wolfson's offer to cap his pension in this way, acknowledging that he has now twice taken a material reduction in the terms of his pension (the Committee considers that it would not be reasonable for him to take a third reduction if shareholders' views were to change again).

Our other executive directors receive pension contributions and/or salary supplements of 15% of salary and 5% of salary. These are consistent with the levels available to staff at the time they joined and, therefore, consistent with the benefits enjoyed by other staff with an equivalent length of service. For many years, employees promoted to the Board have not received any enhancement to their pension provision on joining the Board.

**Base salary and annual bonus – no changes**

The Committee is not proposing any changes to the current policy on base salary. Any increases will be inflationary and, in normal circumstances, in line with those awarded to other employees across the Company.

The Committee feels that, in the round, the current maximum bonus opportunities remain appropriate (150% of salary for the Chief Executive and 100% of salary for the other executive directors, with any bonus in excess of 100% of salary being deferred for a period of two years). This is notwithstanding the fact that this quantum is below the lower quartile position for companies of NEXT's size.

## Annual base salary review for 2020/21

The Committee reviewed and set the remuneration for the Chairman, executive directors and senior management. The executives received base salary increases in February 2020 of 1.75%, 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.

## 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
- 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 delivering 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.

### Malus and clawback

As part of the Remuneration Policy review, the Committee reviewed and updated the triggers for malus and clawback, strengthening them to ensure that they have sufficient scope to capture any foreseeable circumstance in which the Committee may wish to apply malus and/or clawback. In addition, as required by the UK Corporate Governance Code, the Committee also agreed to introduce a general overriding discretion to reduce variable pay at the point of determination and to include this in the executive directors' service agreements.

### Other activity during 2019/20

Further information about the work of the Committee is on page 120.

## Wider employee considerations and employee engagement

The Committee reviews remuneration arrangements across the Group and considers pay and employment conditions elsewhere in the Group 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 2018 Corporate Governance Code). It is also responsible for determining the targets for performance-related pay schemes, approving any award of the Company's shares under employee share option or incentive schemes, and overseeing 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 approximately 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 8,600 employees (circa 22% of our total UK and Eire employees) held options or awards in respect of 6.4 million shares in NEXT at the financial year end.

During 2019 we enhanced the current range of workforce engagement activities by holding the first annual Recruit, Reward and Retain working party meetings for our Head Office, Warehousing & Distribution, Retail and Online areas. Lord Wolfson, Dame Dianne Thompson (non-executive director), our Group HR Director and a cross-section of workforce representatives from each area attended each of the meetings. In addition, Lipsy and Next Sourcing have implemented company works councils and will be incorporated into the Recruit, Reward and Retain working party meetings from 2020.

Along with the Recruit, Reward and Retain working party feedback, earlier this year the Committee reviewed and discussed a range of "dashboard" information on important employee matters such as pay and reward, bonuses, benefits, diversity, equality of pay, internal promotions, culture and behaviours, and learning and development. The Remuneration Policy review works best when decisions are made in the context of the workforce as a whole rather than in isolation, and so the Committee took into account the output of the workforce dashboard to ensure the executive directors' pay policy is aligned to the Company's strategy and, where relevant, to performance-related pay for managers below Board level. At the conclusion of the Committee's Remuneration Policy review, I circulated a letter to all of our employees setting out our approach to the proposed changes.

## Shareholder engagement

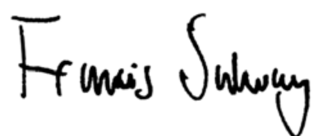
As noted above, during the year the Committee consulted with our largest shareholders and their representative bodies on our proposed changes to the Remuneration Policy. We were pleased by the level of engagement and overall the feedback was positive. The only point raised as a concern by a small number of our shareholders was that the initial proposal did not include post-cessation guidelines. Consequently, the Committee considered and addressed this by adding such guidelines to the proposal. The Committee was keen to address the broader market landscape on this issue while, as encouraged by the UK Corporate Governance Code, ensuring that arrangements are proportionate and appropriately tailored to the specific business.

For further details regarding the feedback to the Board on shareholder views, please see page 76.

# REMUNERATION REPORT

## 2020 AGM

The Committee has been very mindful of the requirements of the 2018 Corporate Governance Code when determining remuneration policy and practices. It 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 2020 AGM for our proposed Remuneration Policy, our 2019/20 Directors' Annual Remuneration Report and the changes to the LTIP.



**Francis Salway**
Chairman of the Remuneration Committee

19 March 2020

# Part 2: Proposed Remuneration Policy for the Period 2020 to 2023

The proposed Remuneration Policy is set out in this section. At the AGM to be held on 14 May 2020 a resolution to adopt the proposed Remuneration Policy will be put to shareholders for approval. The Policy is set to apply, subject to shareholders' approval, for three years from the 2020 AGM.

The table below summarises the Company's policies with regard to each of the elements of remuneration for existing directors and the approach to payments on external recruitment and termination. The key changes in the proposed Policy from the current Remuneration Policy which expires at the 2020 AGM have been highlighted where necessary. Only minor changes from the current Directors' Remuneration Policy are proposed. The key changes are set out on pages 97 to 99.

## 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. For instance, 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 the figure specified in the 2017 Remuneration Policy of £850,000 subject to the amount of the maximum base salary that may be paid to an executive director in any year increasing in line with the growth in RPI from the date of approval of that limit in the preceding Remuneration Policy in 2017.

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

No material changes.

## Annual bonus

### Purpose and link to strategy

**To incentivise delivery of stretching annual goals.**

**To provide focus on the Company's key financial objectives.**

**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.**

### Operation

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.

At the threshold level of performance, no more than 20% of the maximum bonus may be earned (the Committee will determine the appropriate percentage each year and recent awards have been set at a lower level). 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 109, 50% of maximum bonus has been assumed.

Dividend accruals (both in respect of special and ordinary dividends) may be payable on any deferred bonus awards which vest.

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.

### Maximum opportunity

At present, Company policy is to provide a maximum bonus opportunity 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:

- 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
- Lessen the current differentials in bonus maximums which exist between the Chief Executive and other executive directors
- Introduce or extend an element of compulsory deferral of bonus outcomes if considered appropriate by the Committee

### Performance measures and targets

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. The Committee reserves flexibility to apply discretion in the interests of fairness to shareholders and executives by making adjustments it considers appropriate.

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

No material changes.

# REMUNERATION REPORT

## Long Term Incentive Plan (LTIP)

### Purpose and link to strategy

**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.**

**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.**

### Operation

A variable percentage of a pre-determined maximum number of shares can vest, depending on the achievement of performance conditions.

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.

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.

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.

### Maximum opportunity

The maximum possible aggregate value of awards granted to all executive directors will be 225% of annual salary (i.e. typically 112.5% every six months, although the first 2020 grant will be 100% and the second, which follows the AGM, will be at 125%) and up to 300% in exceptional circumstances.

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.

### Performance measures and targets

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.

| Relative performance | Percentage vesting |
|---|---|
| Below median | 0% |
| Median | 20% |
| Upper quintile | 100% |

If no entitlement has been earned at the end of a three year performance period then that award will lapse; there is no retesting. The Committee may set different performance conditions for future awards subject to consulting with major shareholders before any significant changes are made.

### Key changes to last approved policy

The maximum opportunity has been increased from 200% to 225%.

## 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, Jane Shields and Richard Papp 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 accruing service in an unfunded, unapproved supplementary pension arrangement (SPA), described on page 114. His future pension is 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 Richard Papp ceased to contribute to the Plan in 2011 and 2004 respectively. Their DB 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 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 (DC) section of the Plan and the Company currently makes a contribution equal to 5% of her salary into her pension plan. Amanda James can opt to receive an equivalent cash supplement in lieu of this Company contribution. Richard Papp is a deferred member of the DC section and receives a 5% cash equivalent supplement. The arrangements for Amanda James and Richard Papp are consistent with the pension provision and alternatives available to employees who joined the DC section of the Plan at a similar time. The 5% cash equivalent supplement is only available to members who have exceeded the Annual or Lifetime Allowance limits.

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

New employees of the Group can join the auto enrolment pension 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 (plus any element of pension which was accrued on bonus payments made prior to 2006, when bonus was removed from the definition of pensionable earnings) could become payable.

The lump sum payable on death in service is four times base salary under the SPA, three times base salary under the DB and DC sections and one times base salary under the auto enrolment plan.

No DC contributions, or equivalent cash supplement payments, will be made to an executive director in any year that will exceed the level offered to the wider colleague population recruited at or about the same time as them.

Lord Wolfson has volunteered to cap the service accrual under his DB pension annually so that the single figure attributed to the DB portion of his pension is no more than 9% of salary (giving single figure of DB pension and salary supplement in aggregate of up to 24% of salary).

Any newly appointed executive directors, whether internal or external appointments, will be invited to join a NEXT Defined Contribution pension arrangement at the prevailing rate for staff across NEXT at the time. This is currently an employer pension contribution of 3% of pensionable salary.

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

Newly appointed executive directors will receive the prevailing pension contribution rate for staff across NEXT. Lord Wolfson has voluntarily capped his pension at the figures specified above.

# REMUNERATION REPORT

## 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. Relocation benefits would normally only be available for up to 12 months and the Committee would make appropriate disclosures of any provided.

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

No change.

## 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 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.

### 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.

### Key changes to last approved policy

No change.

## 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 108. The contract is terminable by the Company on giving one year's notice and by the individual on giving six months' notice. For directors appointed prior to the date of approval of the Remuneration Policy in 2017, 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 directors appointed after that time, any payment in lieu of notice is limited to their base salary only.

For directors appointed prior to the date of approval of the Remuneration Policy in 2017, 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 executive directors appointed after that date and any service contract since that time 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 not automatic.

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

No material changes.

# REMUNERATION REPORT

## 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; a director's misconduct; or circumstances that would lead to a sufficiently significant negative impact on the reputation and likely financial strength of the Company. These provisions allow for the recovery of sums paid and/or withholding of sums to be paid.

### Maximum opportunity

Not applicable.

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

Strengthening of recovery and withholding provision to include circumstances that would lead to a sufficiently significant negative impact on the reputation and likely financial strength of the Company.

## 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.

If the Chairman or non-executive directors are required to spend time on exceptional Company business significantly in excess of the normal time commitment, the Chairman will be paid £1,500 and the non-executive directors £1,000 for each day spent. 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.

The policies as set out above would apply to the promotion of an existing Group employee to the Board.

## The following principles will be applied on an internal appointment or the recruitment of an external candidate to the Board

For internal appointments, and unless agreed otherwise with the new director, the Company will honour the contractual entitlements and other incentives (e.g. options granted under the NEXT Share Matching Plan) awarded prior to the Board appointment.

For external recruits, the Committee will also aim to structure and agree a package which is in line with the same policies for existing executive directors as set out above. However, consistent with the reporting regulations, the Committee reserves the right not to apply the caps contained within the policy for fixed pay, either on joining or for any subsequent review within the life of this policy, although the Committee would not envisage exceeding these caps in practice. In addition, the Committee may offer cash or share-based incentives when considered to be necessary to secure a candidate and in the best interests of the Company and its shareholders. It may be necessary to make such awards on more bespoke terms which differ from NEXT's existing annual and share-based pay structures. Depending on the timing of an appointment it may be necessary to use different performance criteria to other executive directors for any initial incentive awards. However, the Committee will not authorise the payment of more than it considers necessary and will abide by the caps for such elements within the general policy.

Additional awards may be made to compensate for forfeiture of incentive awards in the previous employer, and may not be subject to the caps applied to NEXT's annual bonus plan or the LTIP. All such awards for external appointments, whether made under the annual bonus plan, LTIP or otherwise, will be limited to the commercial value of the amounts forfeited and will take account of the nature, time periods and performance requirements of those awards. In particular, the Committee's starting point will be that any forfeited awards which are subject to continued service or performance requirements are replaced by NEXT awards with broadly equivalent terms. However, the Committee may relax these requirements in exceptional circumstances and where the Committee considers it to be less expensive for shareholders, for example where service periods are materially complete and/or the replacement awards are materially discounted to reflect the conditions on forfeited awards. The Committee will only authorise guaranteed or non pro-rated awards under the annual bonus plan where the Committee considers it is necessary to secure recruitment and these would be limited to no more than the first year of appointment.

For external and internal appointments, the Committee may agree that the Company will meet such reasonable relocation expenses it considers appropriate and/or make a contribution towards legal fees in agreeing employment terms.

The Company has not made an external appointment of an executive director for over 30 years and therefore this policy, which remains materially unchanged from the last approved policy, has not been used since its implementation. All such appointments during this time have been through internal promotions, so it is challenging to set out principles for an event that has not occurred in recent practice. Therefore, the above broad policy, particularly for external appointments, represent guidelines considered to be reasonable by the Committee, but which will be considered on the merits of each potential appointment on a case by case basis and taking account of evolving best practice.

## Exercise of discretion

In line with market practice, the Committee retains discretion in relation to the operation and administration of the annual bonus, Deferred Share Bonus Plan and LTIP. This discretion includes, but is not limited to:

- The timing of awards and payments
- The size of awards, within the overall limits disclosed in the policy table
- The determination of vesting
- The treatment of awards in the case of change of control or restructuring
- The treatment of leavers within the rules of the plan and the termination policy summary shown on page 105
- Adjustments needed in certain circumstances (for example, rights issue, corporate restructuring or special interim dividend)

While performance conditions will generally remain unchanged once set, the Committee has the usual discretions to amend the measures, weightings and targets in exceptional circumstances (such as a major transaction) where the unamended conditions would cease to operate as intended. Any such changes would be explained in the subsequent annual remuneration report and, if appropriate, be the subject of consultation with the Company's major shareholders. Consistent with best practice, the LTIP rules also provide that any such amendment must not make the amended condition materially less difficult to satisfy than the original condition was intended to be prior to the occurrence of such event.

## Adjustment to number of shares under deferred bonus and LTIP

The number of shares subject to deferred bonus and LTIP awards may be increased to reflect the value of dividends that would have been paid in respect of any dates falling between the grant of awards and the date of vesting.

The terms of incentive plan awards may be adjusted in the event of a variation of the Company's share capital, demerger or a similar event that materially affects the price of the shares or otherwise in accordance with the plan rules.

# REMUNERATION REPORT

## Share ownership guidelines

The minimum shareholding is 200% of salary for all executive directors and will be increased to 225% during the year (see below). An executive director has up to five years from date of appointment to acquire the minimum shareholding. Shares in which the executive director, their spouse/civil partner or minor children have a beneficial interest count towards the shareholding.

Subject to approval of the Remuneration Policy by shareholders at the May 2020 AGM, post-cessation shareholding guidelines will apply to all executive directors. Directors must hold a minimum of 225% of salary for one year post-cessation. The Committee will have the normal discretion to disapply this in exceptional circumstances. The post-cessation guidelines will apply and be enforced through the retention of any (after-tax) shares vesting in respect of 2020 LTIP grants onwards into an escrow account until an amount equal to 225% of salary is held. When the post-cessation guideline is introduced share ownership requirement will be raised from 200% to 225%.

## Legacy commitments

The Committee reserves the right to honour all historic contractual entitlements and other incentives provided they were consistent with the shareholder approved policy in place at the time they were agreed. Any such payments would be disclosed in the relevant Annual Remuneration Report as necessary.

## Stating maximum amounts for each element of remuneration

Where the above policy refers to the maximum amounts that may be paid in respect of any element of the policy (as required under the Regulations) these will operate simply as caps and will not be indicative of any aspiration.

## Consideration of shareholder views

During the year, the Committee consulted extensively with our largest shareholders and their representative bodies on our proposed changes to the Remuneration Policy (as detailed on page 99). The specific shareholder views about remuneration are also communicated to the Committee on an ongoing basis through inclusion in Board reports of shareholder feedback and statements made by representative associations. The Committee remains committed to ongoing dialogue and shareholders and representative bodies are able to contact the Committee Chairman directly if they wish to do so.

## 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 |

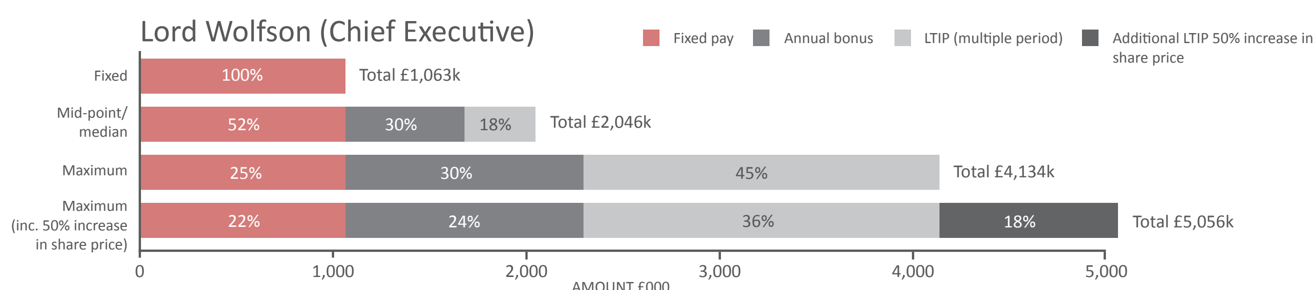
* Appointed Chairman 2 August 2017.

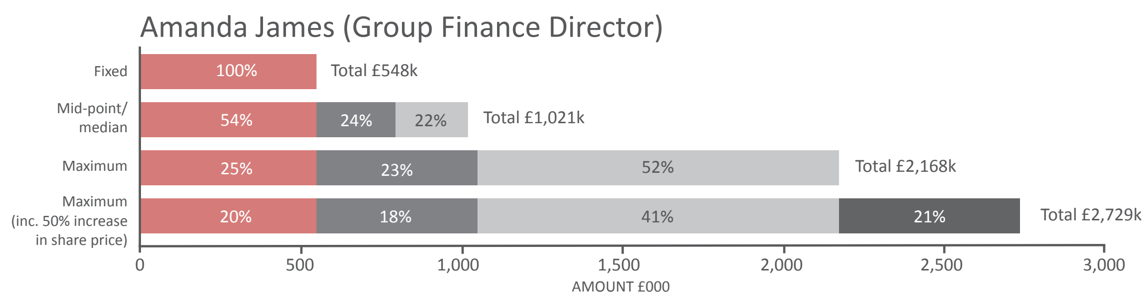
## Total remuneration opportunity

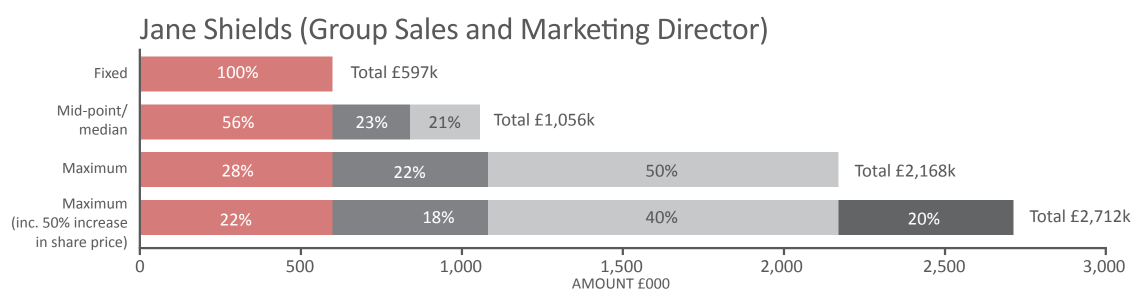
The Committee's objective is to ensure that the remuneration paid to senior executives is appropriate in both amount and structure, is directly linked to the Company's annual and longer term performance and is aligned with the interests of shareholders. Careful consideration is given to ensuring there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

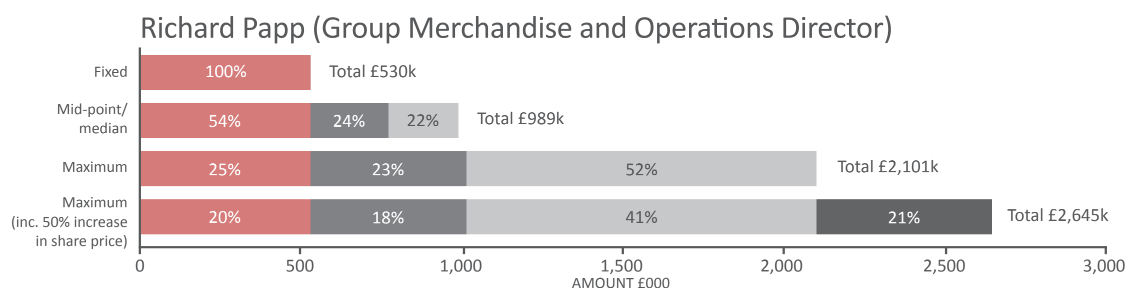
The charts below indicate the level of remuneration that could be received by each executive director in accordance with the Directors' Remuneration Policy in the first year to which the new policy applies (i.e. year to January 2021) at different levels of performance.

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.



# REMUNERATION REPORT

| In the charts on the previous page, the following assumptions have been made: | |
|---|---|
| Fixed/minimum | Base salaries and salary supplement values as at 2020/21, and benefits values as shown in 2019/20 single figure of remuneration. The pension value for Lord Wolfson has been capped at 24% of his salary (see page 98). |
| Mid-point/median | Includes the performance-related pay a director would receive in the scenario where:<br>• 50% of maximum annual bonus is earned<br>• 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:<br>• 100% of the annual bonus<br>• 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 reporting regulations, this does not separately include the impact of dividend accrual. |

## NEXT employment conditions generally

Pay structures and employment conditions for other Group employees are driven by market and role comparatives and are also considered by the Committee to ensure that any differences for directors are justified. Salary increases for the wider employee group are taken into consideration when determining increases for executive directors and senior management.

In common with executive directors, all other employees are eligible to participate in annual bonus arrangements. The targets for these are linked to performance of the Group, their operating function or personal performance.

These other employees are provided with a competitive package of benefits that includes the opportunity to participate in the Group's pension arrangements and staff discount on Group merchandise. In addition, 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. This plan is primarily aimed at middle management and senior store staff. Options are set at the prevailing market price at the time of grant and are generally granted annually.

The Company also operates a Share Matching Plan for certain senior managers below Board level to encourage them to invest in shares in the Company and receive a related matching award of shares based on certain underlying fully diluted post-tax EPS targets being achieved which are set by the Remuneration Committee.

In order to encourage wider employee share ownership, the Company also operates all-employee Save As You Earn schemes in the UK and Eire, in which all permanent employees (including executive directors) are eligible to participate. As shareholders, these employees have the opportunity to express their views in the same way as other shareholders.

The Company did not consult with employees when drawing up the Directors' Remuneration Policy but has communicated its recommended approach to all employees. The Committee does not generally use any formal internal comparison metrics when setting directors' remuneration, other than the consideration of employee pay as described above, but has sought advice from FIT Remuneration Consultants LLP from time to time on the appropriateness and competitiveness of remuneration structures in place within the Company.

# Part 3: Annual Remuneration Report

**This Annual Remuneration Report comprises a number of sections:**


| Section | Page | Section | Page |
|---|---|---|---|
| Implementation of Remuneration Policy | page 111 | Payments for loss of office | page 117 |
| Single total figure of remuneration | page 112 | Performance and CEO remuneration comparison | page 117 |
| Executive directors' external appointments | page 114 | Analysis of Chief Executive's pay over 10 years | page 118 |
| Pension entitlements | page 114 | Change in remuneration of Chief Executive | page 118 |
| Directors' shareholding and share interests | page 114 | Pay ratios | page 118 |
| Scheme interests awarded during the financial year | page 116 | Relative importance of spend on pay | page 119 |
| Deferred bonus | page 117 | Dilution of share capital by employee share plans | page 119 |
| Performance targets for outstanding LTIP awards | page 117 | Consideration of matters relating to remuneration | page 120 |
| Payments to past directors | page 117 | Voting outcomes at General Meetings | page 121 |

# Annual Remuneration Report

The Remuneration Committee presents the Annual Remuneration Report, which, together with the Chairman's introduction on pages 96 to 100, will be put to shareholders for an advisory (non-binding) vote at the AGM to be held on 14 May 2020. 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 2019/20 and any significant changes in the way the policy will be implemented in 2020/21.

| Element of remuneration | Policy implemented during 2019/20 and changes in 2020/21 |
|---|---|
| **Base salary** | Base salaries for the executives increased by 1.75% in February 2020, in line with the wider Company award. The base salaries for the executive directors from February 2020 are: |

| £000 | 2020/21 | 2019/20 |
|---|---|---|
| Lord Wolfson | **819** | 805 |
| Amanda James | **499** | 490 |
| Richard Papp | **483** | 475 |
| Jane Shields | **483** | 475 |

| Element of remuneration | Policy implemented during 2019/20 and changes in 2020/21 |
|---|---|
| **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.<br><br>For the year to January 2020, performance targets were set requiring pre-tax EPS growth of at least 4.1% on the prior year, adjusted for special dividends and excluding exceptional gains, before any bonus became payable (being pre-tax EPS of 554.7p). At this threshold, 12% bonus was payable. 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 13.2% (being pre-tax EPS of 603.2p).<br><br>Pre-tax EPS growth achieved in the year was 5.8%, being EPS of 564.0p. In accordance with the bonus formula, a bonus of 29% of the maximum was earned which the Committee considered to be appropriate and approved without adjustment.<br><br>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 2019/20. See Note 5 to the single total figure of remuneration table 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.<br><br>As detailed on page 98, the new Remuneration Policy proposal is to increase the level of LTIP grants from 200% to 225% of salary. LTIP grants in 2020/21 will be otherwise made on the same basis to the 2019/20 grants (with any changes to the TSR comparator group considered immediately prior to each grant). |
| **Recovery and withholding provisions** | 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. See page 99 for details of recent changes made to the malus and clawback provisions in the service contracts of the executive directors. |
| **Chairman and non-executive director fees** | The fees of the Chairman and non-executive directors were increased by 1.75% in February 2020, in line with the wider Company award. The Chairman, Michael Roney, will be paid an annual fee of £344,047 (2019/20: £338,130). The basic non-executive director fee for 2020/21 is £58,985 (2019/20: £57,971), with a further £11,797 (2019/20: £11,594) paid to the Chairman of each of the Audit and Remuneration Committees respectively, and to the Senior Independent Director. |
| **Pension** | No change in 2019/20. See page 98 for details of changes to Lord Wolfson's pension effective from February 2020. |
| **Other benefits** | No change. |
| **Save As You Earn scheme (Sharesave)** | No change. |

# REMUNERATION REPORT

## Single total figure of remuneration (audited information)

### Directors' remuneration

| £000 | Fixed remuneration | | | | | | | | | | Variable remuneration | | | | | | | | Total remuneration | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary/fees | | Benefits[1] | | Pension[2] | | Salary supplement[3] | | Total | | Annual bonus[4] | | LTIP[5] | | Sharesave | | Total | | | |
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| **Chairman** | | | | | | | | | | | | | | | | | | | | |
| Michael Roney | **338** | 332 | – | – | – | – | – | – | **338** | 332 | – | – | – | – | – | – | – | – | **338** | 332 |
| **Executive directors** | | | | | | | | | | | | | | | | | | | | |
| Lord Wolfson | **805** | 789 | **47** | 44 | **143** | 108 | **121** | 118 | **1,116** | 1,059 | **350** | 158 | **1,719** | 108 | – | 2 | **2,069** | 268 | **3,185** | 1,327 |
| Amanda James | **490** | 425 | **24** | 38 | **20** | 5 | **4** | 16 | **538** | 484 | **142** | 170 | **885** | 43 | – | 1 | **1,027** | 214 | **1,565** | 698 |
| Richard Papp[i] | **475** | 306 | **23** | 16 | – | – | **24** | 15 | **522** | 337 | **138** | 170 | **925** | 58 | – | – | **1,063** | 228 | **1,585** | 565 |
| Jane Shields | **475** | 425 | **42** | 39 | – | – | **71** | 64 | **588** | 528 | **138** | 170 | **925** | 58 | – | 1 | **1,063** | 229 | **1,651** | 757 |
| **Non-executive directors** | | | | | | | | | | | | | | | | | | | | |
| Jonathan Bewes | **70** | 68 | – | – | – | – | – | – | **70** | 68 | – | – | – | – | – | – | – | – | **70** | 68 |
| Tristia Harrison[ii] | **58** | 20 | – | – | – | – | – | – | **58** | 20 | – | – | – | – | – | – | – | – | **58** | 20 |
| Francis Salway[iii] | **81** | 69 | – | – | – | – | – | – | **81** | 69 | – | – | – | – | – | – | – | – | **81** | 69 |
| Dame Dianne Thompson | **58** | 57 | – | – | – | – | – | – | **58** | 57 | – | – | – | – | – | – | – | – | **58** | 57 |
| | **2,850** | 2,491 | **136** | 137 | **163** | 113 | **220** | 213 | **3,369** | 2,954 | **768** | 668 | **4,454** | 267 | – | 4 | **5,222** | 939 | **8,591** | 3,893 |

i 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.

ii Tristia Harrison joined the Board on 25 September 2018.

iii Francis Salway became Chairman of the Remuneration Committee in January 2019.

Total emoluments paid to directors (salary/fees, benefits, salary supplements and annual bonus) for the year to January 2020 were £3,974,000 (2019: £3,809,000).

## Note 1: Benefits

| | Car/chauffeur charges/ cash allowance | | Fuel | | Medical insurance & NEXT clothing allowance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2019/20 £000** | 2018/19 £000 | **2019/20 £000** | 2018/19 £000 | **2019/20 £000** | 2018/19 £000 | **2019/20 £000** | 2018/19 £000 |
| Lord Wolfson | **40** | 38 | **4** | 3 | **3** | 3 | **47** | 44 |
| Amanda James | **17** | 28 | **5** | 8 | **2** | 2 | **24** | 38 |
| Richard Papp | **20** | 14 | **–** | – | **3** | 2 | **23** | 16 |
| Jane Shields | **30** | 28 | **9** | 8 | **3** | 3 | **42** | 39 |

## Note 2: Pension

Lord Wolfson is accruing pensionable service under the defined benefit supplemental pension arrangement (see page 103 for further details). See also page 98 for details of Lord Wolfson's voluntary cap of the service accrual under his defined benefit (DB) pension plan which is effective from February 2020.

DB pension values above are calculated using the method required by remuneration regulations, i.e. the total pension accrued at January 2020 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.

The DB pension entitlement of Lord Wolfson accrued during the year is as follows:

| | Age at January 2020 | 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 | 52 | 25 | 420 | 16 | 9 |

Directors' DB 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 ten months of the year Amanda made a contribution equal to 5% of her salary into her pension plan which was matched by the Company (2018/19: for three months of that year). For two months at the start 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 who have exceeded the Annual or Lifetime Allowance limits.

## Note 3: Salary supplement in lieu of pension

Supplements of 15% of base salary are paid to Lord Wolfson and Jane Shields in lieu of past changes to their pension arrangements. Jane Shields has received this supplement from 2011 and Lord Wolfson from 2012. Richard Papp is a deferred member of both 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 111. For the year to January 2020, in accordance with the bonus formula, a bonus of 29% of the maximum was earned, none of which was deferred.

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 102.

For the three year period to July 2019, NEXT's TSR ranked sixth in the comparator group of 21 resulting in 67% of the grant made in the second half of 2016 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 small increase over the 3 years of 0.4% and a reduction in pre-tax underlying profit of 3.6%. Ordinary dividends had grown by 1.8% over the three year period and some £978m 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 2020, NEXT's TSR ranked third in the comparator group of 21 resulting in 100% of the award granted in January 2017 vesting. The Committee reviewed the Company's financial performance on the same basis as noted above and during this period, the compound average annual growth in underlying EPS was 1.4% with a reduction in pre-tax underlying profit of 2.7%. Ordinary dividends had grown by 3.3% over the three year period and some £986m 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.

LTIP values included in the 2019/20 single figure table comprise the actual value of awards that have vested for the performance period ended July 2019 plus the estimated value of awards that will vest for the performance period ended January 2020 based on the average NEXT share price over the final three months of the financial year of £68.49. Of the estimated total value of the two LTIP awards, the amount due to the increase in share price is set out below.

| | July 2019 | | January 2020 | |
|---|---|---|---|---|
| | **increase in value (£000)** | Percentage increase | **Increase in value (£000)** | Percentage increase |
| Lord Wolfson | **72** | 14% | **360** | 47% |
| Amanda James | **34** | 14% | **194** | 47% |
| Richard Papp | **39** | 14% | **194** | 47% |
| Jane Shields | **39** | 14% | **194** | 47% |

# REMUNERATION REPORT

## 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, Jane Shields 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. In addition, Lord Wolfson is accruing service in an unfunded, unapproved supplementary pension arrangement (see below).

Lord Wolfson and a small number of senior employees are entitled to receive a pension of two thirds of pensionable earnings as at October 2012 on retirement at age 65, which accrues uniformly throughout their pensionable service, subject to completion of at least 20 years' pensionable service by age 65. The deferred defined benefit pensions for Jane Shields and Richard Papp are based on their pensionable earnings at the time they became deferred pensioners and accrued uniformly throughout their pensionable service. For details of Lord Wolfson's voluntary cap of the service accrual under his DB pension plan, which is effective from February 2020, please see page 98.

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 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 as at October 2012, 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 pensionable earnings as at October 2012. 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).

Further information on the Group's pension defined benefit and defined contribution pension arrangements is provided in Note 20 to the financial statements.

## 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] | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| Lord Wolfson | **1,380,890** | 1,528,639 | **–** | – | **97,207** | 91,316 | **344** | 344 |
| Jonathan Bewes | **1,750** | 1,750 | **–** | – | **–** | – | **–** | – |
| Tristia Harrison | **1,000** | nil | **–** | – | **–** | – | **–** | – |
| Amanda James | **22,253** | 18,772 | **–** | – | **54,505** | 47,426 | **357** | 357 |
| Richard Papp | **20,452** | 28,627 | **–** | – | **53,926** | 49,137 | **392** | 392 |
| Michael Roney | **38,275** | 38,275 | **–** | – | **–** | – | **–** | – |
| Francis Salway | **9,040** | 9,040 | **–** | – | **–** | – | **–** | – |
| Jane Shields | **62,594** | 59,769 | **–** | – | **53,926** | 49,137 | **352** | 352 |
| Dame Dianne Thompson | **nil** | nil | **–** | – | **–** | – | **–** | – |

1. Full details of the basis of allocation and terms of the deferred bonus are set out on page 101.
2. The LTIP amounts above are the maximum potential conditional share awards that may vest subject to performance conditions described on page 102.
3. 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.

There have been no other changes to the directors' interests in the shares of the Company from the end of the financial year to 18 March 2020.

## Minimum shareholding

The current 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. See page 97 for details of proposed changes and the introduction of post-cessation guidelines. As at the 2019/20 financial year end, the value of shareholdings of the executives was as follows:

| | Date of appointment to Board | Shareholding % of base salary as at Feb 2020 | Shareholding guidelines achieved |
|---|---|---|---|
| Lord Wolfson | February 1997 | 12,132% | Yes |
| Amanda James | April 2015 | 321% | Yes |
| Richard Papp | May 2018 | 304% | Yes |
| Jane Shields | July 2013 | 932% | Yes |

The table below shows share awards held by directors and movements during the year. LTIPs are conditional share awards and Sharesaves are options.

| | 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 2016 | 10,360 | – | – | 10,360 | – | 73.92 | nil | – | Jan 2019 |
| | Sept 2016 | 14,790 | – | 9,909[2] | 4,881[2] | – | 51.78 | nil | 59.02 | 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 | nil | – | Jan 2021 |
| | Sept 2018 | 13,472 | – | – | – | 13,472 | 58.56 | nil | – | Jul 2021 |
| | Mar 2019 | – | 16,727 | – | – | 16,727 | 48.11[3] | nil | – | Jan 2022 |
| | Sept 2019 | – | 14,314 | – | – | 14,314 | 56.22[3] | nil | – | Jul 2022 |
| | | **91,316** | | | | **97,207** | | | | |
| Sharesave | Oct 2018 | **344** | – | – | – | **344** | – | 43.48 | – | Dec 2023 – Jun 2024 |
| **Amanda James** | | | | | | | | | | |
| LTIP | Mar 2016 | 4,870 | – | – | 4,870 | – | 73.92 | nil | – | Jan 2019 |
| | Sept 2016 | 6,952 | – | 4,658[2] | 2,294[2] | – | 51.78 | nil | 59.02 | 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 | nil | – | Jan 2021 |
| | Sept 2018 | 7,249 | – | – | – | 7,249 | 58.56 | nil | – | Jul 2021 |
| | Mar 2019 | – | 10,185 | – | – | 10,185 | 48.11[3] | nil | – | Jan 2022 |
| | Sept 2019 | – | 8,716 | – | – | 8,716 | 56.22[3] | nil | – | Jul 2022 |
| | | **47,426** | | | | **54,505** | | | | |
| Sharesave | Oct 2016 | 108 | – | – | – | 108 | – | 38.25 | – | Dec 2021 – Jun 2022 |
| | Oct 2018 | 249 | – | – | – | 249 | – | 43.48 | – | Dec 2023 – Jun 2024 |
| | | **357** | | | | **357** | | | | |
| **Richard Papp** | | | | | | | | | | |
| LTIP | Mar 2016 | 5,575 | – | – | 5,575 | – | 73.92 | nil | – | Jan 2019 |
| | Sept 2016 | 7,958 | – | 5,332[2] | 2,626[2] | – | 51.78 | nil | 59.02 | 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 | nil | – | Jan 2021 |
| | Sept 2018 | 7,249 | – | – | – | 7,249 | 58.56 | nil | – | Jul 2021 |
| | Mar 2019 | – | 9,873 | – | – | 9,873 | 48.11[3] | nil | – | Jan 2022 |
| | Sept 2019 | – | 8,449 | – | – | 8,449 | 56.22[3] | nil | – | Jul 2022 |
| | | **49,137** | | | | **53,926** | | | | |
| Sharesave | Oct 2016 | **392** | – | – | – | **392** | – | 38.25 | – | Dec 2021 – Jun 2022 |

# REMUNERATION REPORT

| | 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] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Jane Shields** | | | | | | | | | | |
| LTIP | Mar 2016 | 5,575 | – | – | 5,575 | – | 73.92 | nil | – | Jan 2019 |
| | Sept 2016 | 7,958 | – | 5,332[2] | 2,626[2] | – | 51.78 | nil | 59.02 | 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 | nil | – | Jan 2021 |
| | Sept 2018 | 7,249 | – | – | – | 7,249 | 58.56 | nil | – | Jul 2021 |
| | Mar 2019 | – | 9,873 | – | – | 9,873 | 48.11[3] | nil | – | Jan 2022 |
| | Sept 2019 | – | 8,449 | – | – | 8,449 | 56.22[3] | nil | – | Jul 2022 |
| | | **49,137** | | | | **53,926** | | | | |
| Sharesave | Oct 2016 | 70 | – | – | – | 70 | – | 38.25 | – | Dec 2021 – Jun 2022 |
| | Oct 2018 | 282 | – | – | – | 282 | – | 43.48 | – | Dec 2023 – Jun 2024 |
| | | **352** | | | | **352** | | | | |

1. 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.
2. See page 113 for details of the performance conditions and vesting levels applicable to the LTIP schemes with performance periods ending in the financial year 2019/20.
3. The LTIP price at award date is NEXT's average share price over the three months prior to the start of the performance period.
4. 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 any exercise of options granted under the Sharesave scheme and the LTIP conditional share awards that vested in the 2019/20 year totalled £1,490,000 (2018/19: £328,000).

## Scheme interests awarded during the financial year ended January 2020 (audited information)

**LTIP**

**Face value**

In respect of the LTIP conditional share awards granted during the year 2019/20, 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 2019 £000 | Sep 2019 £000 | Total £000 |
|---|---|---|---|
| Lord Wolfson | 805 | 805 | 1,610 |
| Amanda James | 490 | 490 | 980 |
| Richard Papp | 475 | 475 | 950 |
| Jane Shields | 475 | 475 | 950 |

**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 2019 grant: three years to January 2022.

September 2019 grant: three years to July 2022.

**Performance measures**

The LTIP performance measures are detailed on page 102. The companies in the TSR comparator group for awards granted during the financial year are:

| | | | |
|---|---|---|---|
| ASOS | Dixons Carphone | Kingfisher | Pets at Home |
| B&M European Value Retail | Dunelm | Marks & Spencer | Superdry |
| Burberry | Halfords | Morrisons | Ted Baker |
| Boohoo (September 2019 award only) | J Sainsbury | Mothercare | Tesco |
| Carpetright | JD Sports | N Brown | W H Smith |
| Debenhams (March 2019 award only) | | | |

**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 2019/20 annual bonus for Lord Wolfson was 44%, so none is payable in shares.

## Performance targets for outstanding LTIP awards

The maximum potential of each six-monthly LTIP award 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 2019 and August 2019 are shown opposite. Boohoo replaced Debenhams for the August 2019 award, following Debenhams' delisting.

The comparator group for the performance periods commencing in August 2016, February 2017, August 2017, February 2018 and August 2018 is the same as February 2019.

## Payments to past directors (audited information)

There were no payments made to past directors during the 2019/20 financial year.

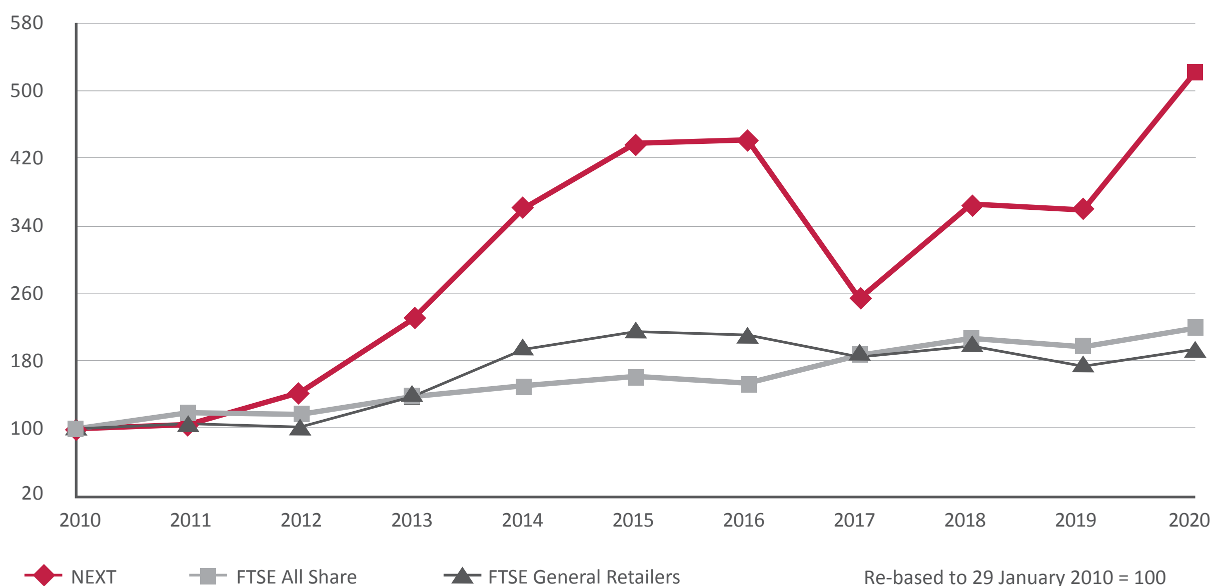
## Payments for loss of office (audited information)

There were no payments made to any director in respect of loss of office during the 2019/20 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 over the ten year period ended January 2020.



# REMUNERATION REPORT

## 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 |
|---|---|---|---|---|
| 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 |
| 2020 | 3,185 | 29% | Two semi-annual awards vested at 67% and 100% | 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 2018/19 and 2019/20 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 because we believe it is the most appropriate comparator group and represents 85% of the Group's workforce.

| | Salary % change | Annual bonus % change | Taxable benefits % change |
|---|---|---|---|
| Lord Wolfson | 2.0% | 121.9% | 7.6% |
| UK/Eire Employees (average per FTE) | 3.0% | 5.0% | 0.6% |

Lord Wolfson waived his entitlement to a portion of his 2018/19 annual bonus. Had he not done so, the annual bonus percentage change would have been -26.1%.

## Pay ratios

In line with new reporting requirements, set out below are ratios which compare the total remuneration of Lord Wolfson (as included in the single total figure of remuneration table on page 112) to the remuneration of the 25th, 50th and 75th percentile of our UK employees. The disclosure will build up over time to cover a rolling 10-year period.

| Year | Method | 25th percentile pay ratio | 50th percentile (median) pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 2019/20 | Option B | 183:1 | 178:1 | 128:1 |

We have used Option B in the legislation to calculate the full-time equivalent remuneration in the 2019/20 financial year for the 25th, 50th and 75th percentile UK employees, leveraging the analysis completed as part of our most recent UK gender pay gap reporting as at 5 April 2019. As we have a very significant employee base, it was felt to be overly complicated to prepare single figure calculations for each individual. Having identified the employees at these three percentiles using the gender pay gap data, we have then used the same methodology applied in the CEO's single figure calculation to the pay and benefits of the UK employees falling at these three percentiles. This includes base salary, benefits, bonus, long term incentives and pension (if applicable). The Committee has considered the methodology and is confident the employees identified are reasonably representative since the structure of their remuneration arrangements is in line with that of the majority of the UK workforce. We consider that these ratios are broadly appropriate in the context of comparison with other retailers.

The base salary and total remuneration received during the financial year by the indicative employees on a full-time equivalent basis used in the above analysis are set out below:

| | 25th percentile | 50th percentile (median) | 75th percentile |
|---|---|---|---|
| Base salary | £17,200 | £17,282 | £22,007 |
| Total remuneration | £17,446 | £17,859 | £24,891 |

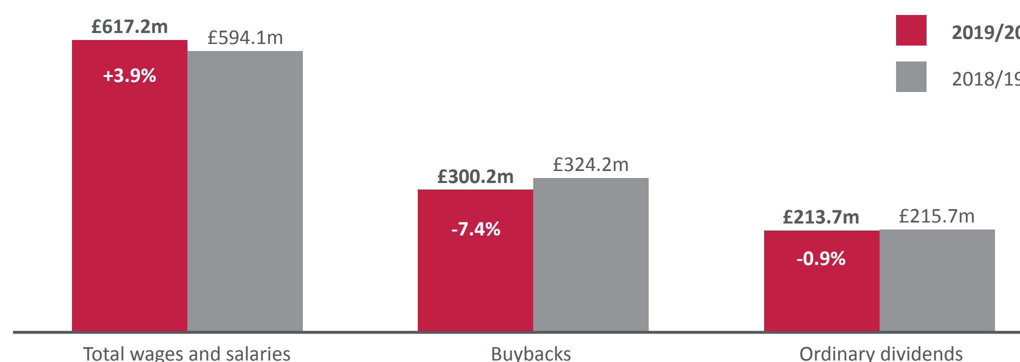
The ratios disclosed above are affected by the following factors:

- Of our UK workforce of 37,300, over 90% work in our retail stores, customer contact centres and warehouses where, in line with the retail sector more generally, rates of pay will not be as high as management grades and those employees based at our head offices in more technical roles. The three indicative employees used in the calculations are either retail sales consultants or warehouse operatives
- The CEO has received shares relating to vesting of two LTIPs in the year. NEXT's share price affects the value of these incentive plans whereas typically incentive plans provided to our non-management employees are unaffected by our share price movements

## Relative importance of spend on pay

The graph below illustrates for the years 2018/19 and 2019/20 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




## 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 25 to the financial statements).

# REMUNERATION REPORT

## Consideration of matters relating to directors' remuneration

### Remuneration Committee

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

| Member |
| --- |
| Francis Salway (Committee Chairman) |
| Jonathan Bewes |
| Tristia Harrison |
| Michael Roney |
| Dame Dianne Thompson |

Attendance at Committee meetings is shown on page 87.

### 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 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 (Aon), FIT Remuneration Consultants LLP (FIT) and Deloitte LLP (Deloitte) 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 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 provided independent verification services of total shareholder returns for NEXT and the comparator group of companies under the LTIP. Deloitte provides other consultancy services to the Group on an ad hoc basis.

During the year FIT was paid circa £46k, and Deloitte and Aon were each paid less than £6k 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 2018/19 Remuneration Report | 2019 | 96,685,048 | 98.0 | 1,943,206 | 2.0 | 98,628,254 | 72.2 | 1,070,406 |

On behalf of the Board

**Francis Salway**
Chairman of the Remuneration Committee

19 March 2020

Strategic Report

Governance

Financial Statements

Shareholder Information

# DIRECTORS' REPORT

## Information contained in Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report. Specifically, this relates to:

- information in respect of employee matters (including actions taken to introduce, maintain or develop arrangements aimed at employees, details on how the directors have engaged with employees and had regard to employee interests, our approach to investing in and rewarding the workforce, employee diversity and the employment, training and advancement of disabled persons)
- likely future developments
- risk management
- details on how the directors have had regard to the need to foster business relationships with stakeholders
- greenhouse gas emissions

## Financial instruments

Information on financial instruments and the use of derivatives is given in Notes 26 to 29 to the financial statements.

## Annual General Meeting

The Annual General Meeting (AGM) of NEXT plc will be held at the registered office of Next plc, Desford Road, Enderby, Leicester LE19 4AT on Thursday 14 May 2020 at 9.30 am. The Notice of Annual General Meeting, which includes the business to be transacted at the meeting, is set out from page 204.

## Dividend waiver

The Trustee of the NEXT ESOT has waived dividends paid in the year on the shares held by it; please refer to Note 25 to the financial statements for further information.

## Share capital and major shareholders

Details of the Company's share capital are shown in Note 22 to the financial statements.

The Company was authorised by its shareholders at the 2019 AGM to purchase its own shares. During the financial year the Company purchased and cancelled 5,376,718 ordinary shares with a nominal value of 10p each (none of which were purchased off-market), at a cost of £300.2m and representing 3.9% of its issued share capital at the start of the year.

At the financial year end 25 January 2020, the Company had 133,228,915 shares in issue. Subsequent to the end of the financial year and before the start of the closed period, the Company purchased for cancellation 279,639 of its own shares at a cost of £19.3m. As at 18 March 2020 the number of shares in issue was 132,949,276.

As at 25 January 2020, 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 25 January 2020 | | | |
|---|---|---|---|---|
| | No. of voting rights at date of notification | % of voting rights at date of notification | Nature of holding | Date of notification |
| FMR LLC (Fidelity) | 14,555,000 | 10.92 | Indirect interest | 3 January 2020 |
| 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 | 5,515,870 | 4.01 | Direct interest | 4 April 2019 |

# Additional information

## 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 2020 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 specifies the 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 UK Corporate Governance Code, all directors stand for re-election annually.

## 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 of the Company or Next Group plc, Next Group plc'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 Next Group plc's corporate bonds will be entitled to call for redemption of the bonds by Next Group plc or the Company as guarantor 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 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.

## Branches

NEXT, through various subsidiaries, has established branches in a number of different countries in which the business operates.

## 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 this 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 2020, NEXT published a Profit Before Tax (PBT) central guidance forecast for the year to January 2020 of £727m. Actual PBT for the period was £728.5m. These PBT amounts are on a pre-IFRS 16 basis. |
| 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.

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

This Directors' Report, comprising pages 80 to 123, has been approved by the Board and is signed on its behalf by

**Amanda James**
Group Finance Director

19 March 2020

# 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 25 January 2020 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 25 January 2020; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity and the Consolidated Cash Flow Statement for the 52 week period then ended; the Group 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 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

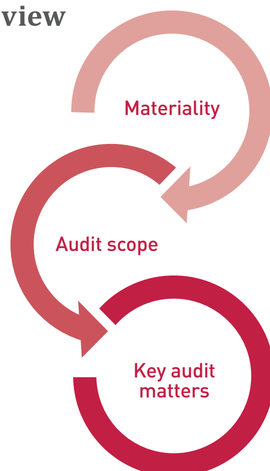
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 27 January 2019 to 25 January 2020.

### Our audit approach

#### Overview




- Overall Group materiality: £36.0m (2019: £36.0m), based on 5% of profit before tax.
- Overall Parent Company materiality: £26.0m (2019: £30.0m), based on 1% of total assets.

- We conducted an audit of the complete financial information of one financially significant reporting unit as well as six other reporting units (components).
- Six of these components were audited by the UK Group Engagement Team with the remaining component audited by a local component team located in Hong Kong.
- Our scoping resulted in coverage of 94% of revenue, 99% of profit before tax and 98% of total assets.

- Recoverability of customer receivables (Group).
- Inventory being in excess of net realisable value (Group).
- Valuation of financial instruments (Group).
- Accounting for defined benefit pension arrangements (Group).
- IFRS 16 transition (Group).
- Going concern and impairment consideration relating to Coronavirus (Group).

#### 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 70 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 and UK Tax legislation. 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 (bonuses) payments. The Group engagement team shared this risk assessment with the component auditors 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 auditors included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to recoverability of directory 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**<br>**Group**<br>Refer to the Audit Committee Report on page 92, the Major Sources of Estimation Uncertainty and Judgment within the Group Accounting Policies and note 13 for Customer and Other Receivables.<br>An allowance of £171.5m (2019: £165.5m) is recognised against customer receivables of £1,405.6m (2019: £1,372.7m).<br>NEXT's provisioning methodology uses historical loss experience to quantify, on a discounted and probability weighted basis, the cash shortfalls expected to be incurred, under different macro-economic scenarios, as a result of future projected default scenarios.<br>Manual overlays are then applied to address identified risks which are not captured fully by the historical information. In arriving at these overlays, management has considered the Bank of England's ongoing concern – both as Central Bank and as Regulator – regarding increasing consumer debt levels and affordability, along with the key drivers to the performance of the customer receivables. The key manual overlays applied relate to future projections regarding probability of default and cash collection forecasts (both leading up to and following default). | 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 (including data feeds).<br>We used financial services specialists and actuarial experts to critically assess management's approach, based on the key drivers of performance for the customer receivables, against the requirements of IFRS 9 and emerging best practice.<br>We tested the key inputs to the provision calculated by management, which are the historical default experience and expected future recoveries, as well as the stratification of the year end book by arrears position, customer indebtedness index and expected month of default.<br>We tested, on a sample basis, the appropriateness of management's assumptions, based on NEXT's historical experience and expected levels of future default.<br>We challenged and validated the appropriateness of NEXT's manual overlays, based on our knowledge of the customer receivables, expected future customer payment assumptions, projected default scenarios and wider macro-economic factors. As part of this analysis, we considered whether all drivers impacting the performance of the customer receivables had been appropriately captured by management.<br>We tested, on a sample basis, whether the performing customer receivables were genuinely performing, in order to obtain evidence that receivables were appropriately recorded.<br>We assessed the adequacy and clarity of the accounting policy and credit risk disclosures made in relation to customer receivables.<br>We developed our own independent expectation of the allowance amount and concluded that the position taken by management was reasonable. |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEXT PLC

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Inventory being in excess of net realisable value**<br>**Group**<br>Refer to the Audit Committee Report on page 92 and the Major Sources of Estimation Uncertainty and Judgment within the Group Accounting Policies.<br>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:<br>• the forecasted sell through rates of current and prior season inventory to determine inventory expected to be sold via clearance channels; and<br>• the forecasted cash recovery rates on inventory sold via clearance channels.<br>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.<br>We have performed sensitivity analysis over key judgements taken by management and assessed the impact of this sensitivity analysis on the provision value.<br>We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately.<br>We examined 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.<br>We found that the provisions recorded were consistent with the evidence obtained. |
| **Valuation of financial instruments**<br>**Group**<br>Refer to the Audit Committee Report on page 92, the Major Sources of Estimation Uncertainty and Judgment within the Group Accounting Policies and notes 27 and 28 for financial instruments.<br>The nature of the Group's business means that it is exposed to fluctuations in foreign exchange rates on purchases and sales. As such, the Group takes out a number of foreign exchange derivatives which are valued on a mark to market basis and are therefore valued on an estimated basis with reference to market inputs rather than directly observable market values. The Group also has in place interest rate derivatives on a similar basis. | 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.<br>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.<br>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.<br>We found the valuation of foreign exchange and interest rate derivatives to be consistent with the evidence obtained. |
| **Accounting for defined benefit pension arrangements**<br>**Group**<br>Refer to the Audit Committee Report on page 92, the Major Sources of Estimation Uncertainty and Judgment within the Group Accounting Policies and note 20 for pension benefits.<br>The defined benefit pension schemes obligation is calculated based on actuarial assumptions which are subject to significant management judgement and are also sensitive to small changes.<br>In addition, there are restrictions under IAS19 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.<br>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.<br>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. |
| **IFRS 16 transition**<br>**Group**<br>Refer to the Audit Committee Report on page 91, the Major Sources of Estimation Uncertainty and Judgment within the Group Accounting Policies and the Adoption of new accounting standards, interpretations and amendments in the Group Accounting Policies.<br>The Group has fully retrospectively applied IFRS 16 from 27 January 2019 so the financial statements for the year ended 25 January 2020 are the first accounts presented under IFRS 16 and prior years presented have been restated.<br>The Group has implemented a new IT system to calculate IFRS 16 numbers.<br>The Group have taken judgements in their adoption of IFRS 16 including the assessment of lease term and discount rate applied to the leases. | We have tested a sample of inputs into the IT system and agreed these data points back to the underlying lease agreements. We have tested the controls in relation to the IT system to enable us to place reliance that the IT system is performing the IFRS 16 calculations accurately.<br>We agree 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.<br>We have reviewed the workings for calculating the dilapidations provision and agree with the methodology applied.<br>We have reviewed the disclosures in the financial statements and we are satisfied that they are consistent with the evidence obtained and compliant with IAS 8 and IFRS 16. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Going concern and impairment consideration relating to Coronavirus**<br>**Group**<br>During the course of the latter stages of finalisation of the financial statements, the potential impact of Coronavirus became significant. As a result, management (including the Board and Audit Committee) invested a significant amount of time to fully consider the implications on NEXT.<br>Management considered implications for the Group's going concern assessment, impairment of certain assets and appropriate disclosure in the Annual Report and accounts, by developing stress test scenarios to model potential impacts. | We reviewed management's stress test scenarios including levers available to management to mitigate the impacts. Based on the information available at the time of the directors' approval of the financial statements and us signing our audit opinion, we consider the scenarios to be reasonable whilst noting the impact of Coronavirus on future sales and other inputs is currently difficult to quantify. We challenged management on the key assumptions included in the scenarios and confirmed management's mitigating actions are within their control.<br>We considered the potential impact on the balance sheet, specifically around online debt, inventory, store fixed assets, right of use assets and pension surplus and do not consider there to be any indicators of material impairment as at the balance sheet date or subsequently (for disclosure only).<br>We reviewed management's disclosures in relation to the Coronavirus potential impact and found them to be consistent with the stress test scenarios performed.<br>Our reporting on going concern is set out below. |

We determined that there were no key audit matters applicable to the Parent Company to communicate in our report.

## 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 (components), 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 six 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 seven 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.

Six of the seven 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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEXT PLC

## 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 (2019: £36.0m). | £26.0m (2019: £30.0m). |
| How we determined it | Based on 5% of profit before tax. | Based on 1% of total assets. |
| Rationale for benchmark applied | 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 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 £7.8 million to £34.0 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) (2019: £1.8m) and £1.5m (Parent Company audit) (2019: £1.5m) 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 | Outcome |
|---|---|
| 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 | In reaching our conclusion, we have taken into account the potential impact of Coronavirus as described in our key audit matter above. We have nothing material to add or to draw attention to.<br><br>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. |
| 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 auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report, 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 25 January 2020 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 on page 89 about internal controls and risk management systems in relation to financial reporting processes and on page 84 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 on pages 84 to 89 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 59 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 65 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 82, 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 92 and 93 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)

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEXT PLC

## 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 82, 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 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 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 3 years, covering the years ended 27 January 2018 to 25 January 2020.

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

19 March 2020

# GROUP FINANCIAL STATEMENTS


132 Consolidated Income Statement
133 Consolidated Statement of Comprehensive Income
134 Consolidated Balance Sheet
135 Consolidated Statement of Changes in Equity
136 Consolidated Cash Flow Statement
137 Group Accounting Policies
149 Notes to the Consolidated Financial Statements

# CONSOLIDATED INCOME STATEMENT

| | Notes | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 Restated £m |
|---|---|---|---|
| ***Continuing operations*** | | | |
| **Revenue** | | **3,997.5** | 3,917.1 |
| Credit account interest | | **268.7** | 250.3 |
| Total revenue (including credit account interest) | 1, 2 | **4,266.2** | 4,167.4 |
| Cost of sales | | **(2,584.2)** | (2,562.2) |
| Impairment losses on customer and other receivables | 13 | **(41.5)** | (52.7) |
| **Gross profit** | | **1,640.5** | 1,552.5 |
| Distribution costs | | **(517.0)** | (457.5) |
| Administrative expenses | | **(267.7)** | (255.4) |
| Other (losses)/gains | 3 | **(1.5)** | 1.4 |
| **Trading profit** | | **854.3** | 841.0 |
| Share of results of associates and joint venture | | **(0.4)** | 0.1 |
| **Operating profit** | 3 | **853.9** | 841.1 |
| Finance income | 5 | **0.2** | 0.4 |
| Finance costs | 5 | **(105.6)** | (107.9) |
| **Profit before taxation** | | **748.5** | 733.6 |
| Taxation | 6 | **(138.3)** | (134.5) |
| **Profit for the year attributable to equity holders of the Parent Company** | | **610.2** | 599.1 |
| | | | |
| Earnings Per Share | | | |
| Basic | 8 | **472.4p** | 441.7p |
| Diluted | 8 | **468.8p** | 439.3p |

The Consolidated Income Statement and Earnings Per Share for the 52 weeks to 26 January 2019 have been restated to reflect the impact of IFRS 16 “Leases” (refer to Notes 1 and 32).

The Notes 1 to 32 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 Restated £m |
|---|---|---|---|
| **Profit for the year** | | **610.2** | 599.1 |
| *Other comprehensive income and expenses:* | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial gains on defined benefit pension scheme | 20 | **2.8** | 18.6 |
| Tax relating to items which will not be reclassified | 6 | **(0.5)** | (3.2) |
| *Subtotal items that will not be reclassified* | | **2.3** | 15.4 |
| **Items that may be reclassified to profit or loss** | | | |
| Exchange differences on translation of foreign operations | | **2.0** | (5.3) |
| Foreign currency cash flow hedges: | | | |
| – fair value movements | | **10.5** | 73.2 |
| Cost of hedging | | | |
| – fair value movements | | **0.1** | 0.5 |
| Tax relating to items which may be reclassified | 6 | **(2.8)** | (13.0) |
| *Subtotal items that may be reclassified* | | **9.8** | 55.4 |
| Other comprehensive income | | **12.1** | 70.8 |
| **Total comprehensive income for the year** | | **622.3** | 669.9 |

# CONSOLIDATED BALANCE SHEET

| | Notes | 25 January 2020 £m | 26 January 2019 Restated £m |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **578.5** | 564.9 |
| Intangible assets | 10 | **44.2** | 42.6 |
| Right-of-use asset | 11 | **852.7** | 943.8 |
| Associates, joint venture and other investment | 12 | **5.0** | 5.1 |
| Defined benefit pension asset | 20 | **133.4** | 125.0 |
| Other financial assets | 14 | **48.4** | 41.5 |
| Deferred tax assets | 6 | **55.7** | 41.9 |
| | | **1,717.9** | 1,764.8 |
| **Current assets** | | | |
| Inventories | | **527.6** | 502.8 |
| Customer and other receivables | 13 | **1,315.3** | 1,285.4 |
| Right of return asset | | **24.2** | 23.4 |
| Other financial assets | 14 | **1.7** | 9.9 |
| Cash and short term deposits | 15 | **86.6** | 156.3 |
| | | **1,955.4** | 1,977.8 |
| **Total assets** | | **3,673.3** | 3,742.6 |
| **Current liabilities** | | | |
| Bank loans and overdrafts | 16 | **(73.7)** | (377.3) |
| Trade payables and other liabilities | 17 | **(592.0)** | (596.3) |
| Lease liabilities | 11 | **(172.3)** | (175.6) |
| Other financial liabilities | 18 | **(32.6)** | (9.4) |
| Current tax liabilities | | **(79.2)** | (85.1) |
| | | **(949.8)** | (1,243.7) |
| **Non-current liabilities** | | | |
| Corporate bonds | 19 | **(1,163.7)** | (905.2) |
| Provisions | 21 | **(17.3)** | (15.7) |
| Other financial liabilities | 18 | **(7.8)** | (9.2) |
| Lease liabilities | 11 | **(1,078.7)** | (1,190.7) |
| Other liabilities | 17 | **(14.5)** | (9.1) |
| Deferred tax liabilities | 6 | **–** | (2.8) |
| | | **(2,282.0)** | (2,132.7) |
| **Total liabilities** | | **(3,231.8)** | (3,376.4) |
| **NET ASSETS** | | **441.5** | 366.2 |
| **TOTAL EQUITY** | | **441.5** | 366.2 |

The financial statements were approved by the Board of directors and authorised for issue on 19 March 2020. 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 23) £m | Retained earnings Restated £m | Total equity Restated £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 27 January 2018** | **14.5** | **0.9** | **15.4** | **(231.6)** | **(42.9)** | **3.3** | **–** | **(1,443.8)** | **1,970.5** | **286.3** |
| Profit for the year | – | – | – | – | – | – | – | – | 599.1 | **599.1** |
| Other comprehensive income/(expense) for the year | – | – | – | – | 60.3 | (5.3) | 0.4 | – | 15.4 | **70.8** |
| Total comprehensive income/(expense) for the year | – | – | – | – | 60.3 | (5.3) | 0.4 | – | 614.5 | **669.9** |
| Share buybacks and commitments (Note 22) | (0.6) | – | 0.6 | – | – | – | – | – | (324.2) | **(324.2)** |
| ESOT share purchases and commitments (Note 25) | – | – | – | (61.9) | – | – | – | – | – | **(61.9)** |
| Shares issued by ESOT | – | – | – | 21.9 | – | – | – | – | (6.6) | **15.3** |
| Share option charge | – | – | – | – | – | – | – | – | 13.8 | **13.8** |
| Reclassified to cost of inventory | – | – | – | – | (21.0) | – | – | – | – | **(21.0)** |
| Tax recognised directly in equity (Note 6) | – | – | – | – | 4.0 | – | – | – | (0.3) | **3.7** |
| 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)** | **2,052.0** | **366.2** |
| Profit for the year | – | – | – | – | – | – | – | – | 610.2 | **610.2** |
| Other comprehensive income/(expense) for the year | – | – | – | – | 7.7 | 2.0 | 0.1 | – | 2.3 | **12.1** |
| Total comprehensive income/(expense) for the year | – | – | – | – | 7.7 | 2.0 | 0.1 | – | 612.5 | **622.3** |
| Share buybacks and commitments (Note 22) | (0.6) | – | 0.6 | – | – | – | – | – | (300.2) | **(300.2)** |
| ESOT share purchases and commitments (Note 25) | – | – | – | (94.2) | – | – | – | – | – | **(94.2)** |
| Shares issued by ESOT | – | – | – | 80.9 | – | – | – | – | (15.4) | **65.5** |
| Share option charge | – | – | – | – | – | – | – | – | 14.7 | **14.7** |
| Reclassified to cost of inventory | – | – | – | – | (40.5) | – | – | – | – | **(40.5)** |
| Tax recognised directly in equity (Note 6) | – | – | – | – | 7.7 | – | – | – | 13.6 | **21.3** |
| Equity dividends (Note 7) | – | – | – | – | – | – | – | – | (213.6) | **(213.6)** |
| **At 25 January 2020** | **13.3** | **0.9** | **16.6** | **(284.9)** | **(24.7)** | **–** | **0.5** | **(1,443.8)** | **2,163.6** | **441.5** |

# CONSOLIDATED CASH FLOW STATEMENT

| | 52 weeks to 25 January 2020 £m | 52 weeks to 26 January 2019 Restated £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit | **853.9** | 841.1 |
| Depreciation, impairment and loss on disposal of property, plant and equipment | **124.9** | 122.3 |
| Depreciation on right-of-use asset and gain on exit of leases | **138.1** | 138.0 |
| Amortisation of intangible assets | **–** | 0.3 |
| Share option charge | **14.7** | 13.8 |
| Share of loss of associate | **0.1** | – |
| Exchange movement | **1.7** | (4.3) |
| Increase in inventories and right of return asset | **(25.6)** | (36.2) |
| Increase in customer and other receivables | **(34.0)** | (97.6) |
| (Decrease)/increase in trade and other payables | **(3.3)** | 35.8 |
| Net pension contributions less income statement charge | **(5.3)** | (0.2) |
| Cash generated from operations | **1,065.2** | 1,013.0 |
| Corporation taxes paid | **(138.0)** | (144.2) |
| **Net cash from operating activities** | **927.2** | 868.8 |
| **Cash flows from investing activities** | | |
| Additions to property, plant and equipment | **(138.8)** | (128.6) |
| Movement in capital accruals | **2.4** | 5.4 |
| Payments to acquire property, plant and equipment | **(136.4)** | (123.2) |
| Proceeds from sale of property, plant and equipment | **0.3** | 0.3 |
| Purchase of subsidiary | **(3.0)** | – |
| Purchase of shares in associate | **–** | (3.0) |
| **Net cash from investing activities** | **(139.1)** | (125.9) |
| **Cash flows from financing activities** | | |
| Repurchase of own shares | **(300.2)** | (325.0) |
| Purchase of shares by ESOT | **(94.2)** | (61.9) |
| Disposal of shares by ESOT | **66.9** | 15.8 |
| (Repayment)/proceeds from unsecured bank loans | **(215.0)** | 120.0 |
| Issue of corporate bonds | **250.2** | – |
| Lease repayment | **(162.6)** | (146.1) |
| Interest paid (including lease interest) | **(100.9)** | (105.7) |
| Interest received | **0.2** | 0.2 |
| Dividends paid (Note 7) | **(213.6)** | (215.7) |
| **Net cash from financing activities** | **(769.2)** | (718.4) |
| Net increase in cash and cash equivalents | **18.9** | 24.5 |
| Opening cash and cash equivalents | **34.0** | 8.5 |
| Effect of exchange rate fluctuations on cash held | **–** | 1.0 |
| **Closing cash and cash equivalents (Note 30)** | **52.9** | 34.0 |

# 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 25 January 2020 (last year 52 weeks to 26 January 2019).

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities including the Group's principal risks and uncertainties. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 25 January 2020.

These policies have been consistently applied to all the years presented, unless otherwise stated. The Group applies for the first time IFRS 16 *"Leases"*, IFRIC 23 *"Uncertainty over Income Tax Treatments"* and *"Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform"*.

Refer to pages 147 and 148 for details of the impact on adoption of 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 27.

## 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 next**pay** credit facility).

# GROUP ACCOUNTING POLICIES

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.

## Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

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 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 5–10 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 quarterly 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:

| 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. Transaction 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 in Note 13.

For details on hedge accounting refer to Note 28.

#### 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;
- 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; or
- the Group has taken actions not to pursue collection, for example in instances of bankruptcy or individual voluntary arrangement.

# GROUP ACCOUNTING POLICIES

### 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 Note 13.

## 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 142. 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 de-recognition 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 are 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 SPPI criterion.

### Impairment

In accordance with the accounting policy for impairment – financial assets, the Group recognises an allowance for 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 Group has taken the simplification available under IFRS 9 paragraph 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.

## Customer and Other Receivables (continued)

### Impairment (continued)

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 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 might 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 "*Impairment losses on customer and other receivables*".

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 customer indebtedness, 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 when a customer fails to engage in a repayment plan with the Group. If recoveries are subsequently made after receivables have been written off, they are recognised in profit or loss.

The key assumptions in the ECL calculation are:

PD: "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, based on historical payment practices. The debt is segmented by arrears stage, Experian's Consumer Indebtedness Index (a measure of customers' affordability) and expected time of default.

EAD: "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: "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 that are integrated into the model, in order to evaluate a range of possible outcomes as is required by IFRS 9. 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).

# GROUP ACCOUNTING POLICIES

## 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.

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.

Beginning 28 January 2018 (i.e. under IFRS 9 *"Financial instruments"*), the Group designates 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 the cash flow hedge reserve 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 30 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 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 or LTIP award 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.

# GROUP ACCOUNTING POLICIES

## 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 as a finance cost.

## Lease Accounting

### Group as lessee

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

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

### Lease liability – initial recognition

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

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

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

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

### Lease liability – subsequent measurement

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

### Lease liability – re-measurement

The lease liability is re-measured where:

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

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

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

## Right-of-use asset – initial recognition

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

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

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

## Right-of-use asset – subsequent measurement

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

## Impairment

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

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

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

## Short term leases and low value assets

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

## The Group as lessor

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

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

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

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

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

# Major Sources of Estimation Uncertainty and Judgement

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 13) 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 customer indebtedness 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 £9.0m increase and £9.0m decrease, respectively, in the allowance for Expected Credit Losses (ECL). The choice of a 10% change for the determination of sensitivity represents a reasonable, but not extreme, variation in typical customer indebtedness.

# GROUP ACCOUNTING POLICIES

## Major Sources of Estimation Uncertainty and Judgement (continued)

### Expected credit losses on Online customer and other receivables (continued)

A 2% movement upwards (or downwards) in the expected rate of cash collectable following default reduces (or increases) the allowance for ECL by £2.0m. The choice of a 2% change for the determination of sensitivity represents a reasonable, but not extreme variation in the collection rate.

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

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 20. 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 judgements

Significant judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

### Leases

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

As stated in the accounting policies, the discount rate used to calculate the lease liability is based on the incremental borrowing rate. Incremental borrowing rates are determined monthly and depend on the lease term, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk free rate based on government bond rates; country specific risk and NEXT bond yields. The impact of an increase of 0.5% on the discount rate applied to the 2020 right-of-use asset, depreciation charge, lease liability and finance cost is presented below.

| | |
|---|---|
| Right-of-use asset | £50m decrease |
| Depreciation | £10m decrease |
| Lease liability | £35m decrease |
| Finance cost | £6m increase |

### Financial instruments

The Group has recognised that the value of Financial Instruments and related hedging activity is material to the accounts and relates to a potentially complex area of financial reporting. As a consequence this has been identified as a Key audit matter by the Auditors and an Area of Focus for the Audit Committee. These instruments are valued on a marked to market basis and are therefore valued with reference to market inputs rather than directly observable market values and with limited or no management judgement or estimation required.

## Adoption of new accounting standards, interpretations and amendments

For the financial period ended 25 January 2020 the Group has adopted IFRS 16 *"Leases"* for the first time and early adopted the *"Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform"* issued in September 2019. The nature and effect of these changes is disclosed below. Several other amendments and interpretations apply for the first time in 2020, 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 16 "Leases"

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

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

#### Impact to financial statements

Restating the 2018/19 financial statements upon transition, NEXT recognised an opening right-of-use asset of £948.9m and a lease liability of £1,379.6m. Including adjustments for working capital which existed under IAS 17, the retained earnings of the Group on transition reduced by £196.3m. This adjustment did not cause any hindrance to the distribution of dividends to shareholders.

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

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

The Income Statement reflected an increase to profit before taxation for the year ending January 2020 of £20.0m (2019: £10.7m). Operating profit increased by £81.8m (2019: £79.1m) as the depreciation on right-of-use assets was lower than the IAS 17 rental charge. Interest costs charged to the Income Statement increased by £61.8m (2019: £68.4m) with the addition of higher finance costs on the newly recognised lease liability. The adoption of IFRS 16 did not impact the Group's effective tax rate.

There was no impact on cash flows, although the presentation of the Cash Flow Statement changed significantly, with an increase in net cash inflows from operating activities of £224.4m (2019: £214.5m) offset by an increase in net cash outflows from financing activities of £224.4m (2019: £214.5m). Disclosure of the transitional impact on adoption of IFRS 16 is presented in Note 32.

### IFRIC 23

The Group adopted IFRIC 23 on 27 January 2019. The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over the tax position. In particular it addresses;

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept that treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements

The adoption of this interpretation did not have a material impact on the Group's financial statements.

# GROUP ACCOUNTING POLICIES

### Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The Group has elected to early adopt the 'Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The Group has set up a project team to monitor and assess developments.

In summary, the reliefs provided by the amendments that apply to the Group are:

- In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Group has assumed that the GBP LIBOR interest rate on which the cash flows of the interest rate swap that hedges fixed-rate debt is not altered by IBOR reform.
- The Group has assessed whether the hedged GBP LIBOR risk component is a separately identifiable risk only when it first designates fixed rate debt within a hedge relationship and not on an ongoing basis.

Note 28 discloses the uncertainty arising from IBOR reform for hedging relationships for which the Group applied the reliefs.

## Alternative performance measures (APMs)

Management exercises judgement in determining the adjustments to apply to IFRS measurements in order to derive suitable APMs. As set out on page 56, APMs are used as management 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.

# 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", IFRS 16 "Leases" and unrealised gains or losses on derivatives which do not qualify for hedge accounting.

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. The CODM uses the total sales as a key metric in assessing segment performance; accordingly this is presented below and then reconciled to the statutory revenue.

During the financial year to 25 January 2020, the CODM has altered the internal reporting of finance costs allocated to NEXT Finance. The NEXT Finance segment revenue represents the interest charged to customers on their credit account balance. Previously the customer receivables were treated as being fully funded by external debt. Following a review of this allocation it was decided to treat these as being 85% funded through debt. Consequently an allocation of finance costs was made on this basis. This allocation better reflects the utilisation of funds across the business. The impact of this change has increased the NEXT Finance profit by £6.4m (2019: £6.1m) but had no impact on overall Group profit. Further details on the Finance cost of funding are provided in the Chief Executive's Review.

### Segment sales and revenue

| | 52 weeks to 25 January 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Total sales excluding VAT £m | Commission sales adjustment £m | IFRS 15 adjustments £m | External revenue £m | Internal revenue £m | Total segment revenue £m |
| NEXT Online | 2,146.6 | (134.3) | 42.4 | 2,054.7 | 1.6 | 2,056.3 |
| NEXT Retail | 1,851.9 | (3.4) | (0.3) | 1,848.2 | 3.3 | 1,851.5 |
| NEXT Finance | 268.7 | – | – | 268.7 | – | 268.7 |
| NEXT International Retail | 56.9 | – | – | 56.9 | – | 56.9 |
| NEXT Sourcing | 9.5 | – | – | 9.5 | 533.4 | 542.9 |
| | 4,333.6 | (137.7) | 42.1 | 4,238.0 | 538.3 | 4,776.3 |
| Lipsy | 13.1 | – | – | 13.1 | 81.8 | 94.9 |
| Property Management | 15.1 | – | – | 15.1 | 196.2 | 211.3 |
| Total segment sales/revenue | 4,361.8 | (137.7) | 42.1 | 4,266.2 | 816.3 | 5,082.5 |
| Eliminations | – | – | – | – | (816.3) | (816.3) |
| **Total** | 4,361.8 | (137.7) | 42.1 | 4,266.2 | – | 4,266.2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Segmental Analysis (continued)

### Segment sales and revenue (continued)

| | 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 Online | 1,918.8 | (92.5) | 38.3 | 1,864.6 | – | 1,864.6 |
| NEXT Retail | 1,955.1 | (1.2) | 2.0 | 1,955.9 | 4.6 | 1,960.5 |
| 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 |

### Segment profit

The view of segment profit used by the CODM does not include the impact of IFRS 16 because the IFRS 16 profit before tax is not used in internal reporting. The prior year segment profit results have been restated for the change in the allocation of finance costs to NEXT Finance.

| **Segment profit** | 2020 £m | 2019 Restated £m |
|---|---|---|
| NEXT Online | **399.6** | 352.6 |
| NEXT Retail | **163.9** | 212.3 |
| NEXT Finance | **146.7** | 127.3 |
| NEXT International Retail | **6.2** | 6.2 |
| NEXT Sourcing | **32.0** | 29.6 |
| | **748.4** | 728.0 |
| Lipsy | **13.0** | 11.0 |
| Property Management | **(2.2)** | 6.7 |
| **Total segment profit** | **759.2** | 745.7 |
| Central costs and other | **(6.8)** | (5.4) |
| Recharge of interest to NEXT Finance | **36.3** | 34.0 |
| Share option charge | **(14.7)** | (13.8) |
| Other (losses)/gains | **(1.5)** | 1.4 |
| **Trading profit** | **772.5** | 761.9 |
| Share of results of associates and joint venture | **(0.4)** | 0.1 |
| Finance income | **0.2** | 0.4 |
| Finance costs | **(43.8)** | (39.5) |
| Profit before tax excluding IFRS 16 | **728.5** | 722.9 |
| **IFRS 16** | **20.0** | 10.7 |
| **Profit before tax including IFRS 16** | **748.5** | 733.6 |

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.

# 1. Segmental Analysis (continued)

## Segment assets, capital expenditure and depreciation

| | Property, plant and equipment | | Capital expenditure | | Depreciation | |
|---|---|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| NEXT Retail | **345.4** | 382.6 | **68.8** | 93.0 | **96.8** | 99.1 |
| NEXT Online | **127.4** | 95.0 | **52.3** | 31.8 | **19.8** | 18.4 |
| NEXT Finance | – | – | – | – | – | – |
| NEXT International Retail | **0.5** | 0.8 | – | 0.1 | **0.1** | 0.3 |
| NEXT Sourcing | **2.6** | 2.5 | **1.1** | 0.9 | **1.2** | 1.1 |
| Lipsy | **2.4** | 3.8 | **0.1** | 1.3 | **1.0** | 0.9 |
| Property Management | **100.2** | 80.2 | **16.5** | 1.5 | **0.3** | 0.3 |
| **Total** | **578.5** | 564.9 | **138.8** | 128.6 | **119.2** | 120.1 |

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 right-of-use assets, depreciation on right-of-use assets and 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, right-of-use assets and deferred tax assets) by geographical location are detailed below:

| External revenue by geographical location | 2020 £m | 2019 £m |
|---|---|---|
| United Kingdom | **3,665.0** | 3,656.9 |
| Rest of Europe | **317.6** | 279.2 |
| Middle East | **189.9** | 138.7 |
| Asia | **58.3** | 56.1 |
| Rest of World | **35.4** | 36.5 |
| **Total** | **4,266.2** | 4,167.4 |

| Non-current assets by geographical location | 2020 £m | 2019 £m |
|---|---|---|
| United Kingdom | **583.4** | 570.6 |
| Rest of Europe | **6.3** | 4.0 |
| Middle East | **4.3** | 4.3 |
| Asia | **28.7** | 28.6 |
| **Total** | **622.7** | 607.5 |

# 2. Total Revenue

The Group's disaggregated revenue recognised under contracts with customers relates to the following categories and operating segments:

| | 52 weeks to 25 January 2020 | | | | |
|---|---|---|---|---|---|
| | Sale of goods £m | Credit account interest £m | Royalties £m | Rental income £m | Total £m |
| NEXT Online | 2,054.7 | – | – | – | 2,054.7 |
| NEXT Retail | 1,848.2 | – | – | – | 1,848.2 |
| NEXT Finance | – | 268.7 | – | – | 268.7 |
| NEXT International Retail | 51.6 | – | 5.3 | – | 56.9 |
| NEXT Sourcing | 9.5 | – | – | – | 9.5 |
| Lipsy | 10.8 | – | 2.3 | – | 13.1 |
| Property Management | – | – | – | 15.1 | 15.1 |
| **Total** | 3,974.8 | 268.7 | 7.6 | 15.1 | 4,266.2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. Total Revenue (continued)

| | 52 weeks to 26 January 2019 | | | | |
|---|---|---|---|---|---|
| | Sale of goods £m | Credit account interest £m | Royalties £m | Rental income £m | Total £m |
| NEXT Online | 1,864.6 | – | – | – | 1,864.6 |
| NEXT Retail | 1,955.9 | – | – | – | 1,955.9 |
| NEXT Finance | – | 250.3 | – | – | 250.3 |
| NEXT International Retail | 56.7 | – | 5.5 | – | 62.2 |
| NEXT Sourcing | 6.9 | – | – | – | 6.9 |
| Lipsy | 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 |

## 3. Operating Profit

Group operating profit is stated after charging/(crediting):

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| Depreciation on tangible assets | **119.2** | 120.1 |
| Depreciation on right-of-use assets | **140.3** | 138.0 |
| Loss on disposal of property, plant and equipment | **1.2** | 0.4 |
| Impairment charges on tangible assets | **4.5** | 1.8 |
| Impairment on right-of-use assets | **1.2** | 1.2 |
| Amortisation of intangible assets | **–** | 0.3 |
| Contingent rentals payable | **2.8** | 3.7 |
| | | |
| Cost of inventories recognised as an expense | **1,462.1** | 1,450.2 |
| Write-down of inventories to net realisable value | **117.4** | 102.8 |
| | **1,579.5** | 1,553.0 |

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 (losses)/gains reported in the Income Statement represent foreign exchange losses of £1.5m (2019: gains of £1.4m) in respect of derivative contracts which do not qualify for hedge accounting under IFRS 9.

Other foreign exchange differences recognised in the Income Statement were gains of £7.4m (2019: £11.1m).

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates, including expenses:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| *Auditor's remuneration* | | |
| Audit of the financial statements | **269** | 297 |
| Audit of subsidiaries | **408** | 445 |
| Total audit fees | **677** | 742 |
| Other assurance services | **138** | 145 |
| | **815** | 887 |

Other assurance services relate to audit work on Corporate Social Responsibility reporting, turnover certificates for store leases and work to support the debt substitution (see Parent Company accounts, note C5, for details on debt substitution).

## 4. Staff Costs and Key Management Personnel

Total staff costs were as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Wages and salaries | **617.2** | 594.1 |
| Social security costs | **44.8** | 43.3 |
| Other pension costs | **35.3** | 29.2 |
| | **697.3** | 666.6 |
| Share-based payments expense – equity-settled | **14.7** | 13.8 |
| Share-based payments benefit – cash-settled | **(0.3)** | (0.7) |
| **Total** | **711.7** | 679.7 |

Share-based payments comprise Management options, Sharesave options and potential LTIP and SMP awards, details of which are given in Note 24.

Total staff costs by business sector were made up as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| NEXT Retail, Online and Finance | **656.8** | 618.3 |
| NEXT International Retail | **1.2** | 1.9 |
| NEXT Sourcing | **32.5** | 32.0 |
| Other activities | **21.2** | 27.5 |
| **Total** | **711.7** | 679.7 |

| | Average employees | | Full-time equivalents | |
|---|---|---|---|---|
| | 2020 Number | 2019 Number | 2020 Number | 2019 Number |
| NEXT Retail, Online and Finance | **39,504** | 39,427 | **23,888** | 23,687 |
| NEXT International Retail | **59** | 113 | **45** | 90 |
| NEXT Sourcing | **4,317** | 4,116 | **4,317** | 4,116 |
| Other activities | **313** | 272 | **295** | 258 |
| **Total** | **44,193** | 43,928 | **28,545** | 28,151 |

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:

| | 2020 £m | 2019 £m |
|---|---|---|
| Short term employee benefits | **3.2** | 3.1 |
| Post-employment benefits | **0.2** | 0.1 |
| Share-based payments | **2.5** | 1.9 |
| **Total** | **5.9** | 5.1 |

Directors' remuneration is detailed in the Remuneration Report.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. Finance Income and Costs

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| Interest on bank deposits | **0.1** | 0.1 |
| Other fair value movements | **–** | 0.2 |
| Other interest receivable | **0.1** | 0.1 |
| **Finance income** | **0.2** | 0.4 |
| | | |
| Interest on bonds and other borrowings | **43.6** | 39.5 |
| Other fair value movements | **0.2** | – |
| Finance costs on lease liability | **61.8** | 68.4 |
| **Finance costs** | **105.6** | 107.9 |

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 143.

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| *Current tax:* | | |
| Current tax on profits for the year | **141.8** | 140.5 |
| Adjustments in respect of prior years | **(0.4)** | (2.3) |
| Total current tax | **141.4** | 138.2 |
| | | |
| *Deferred tax:* | | |
| Origination and reversal of temporary differences | **(3.8)** | (2.3) |
| Adjustments in respect of prior years | **0.7** | (1.4) |
| **Tax expense reported in the Consolidated Income Statement** | **138.3** | 134.5 |

### 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:

| | 2020 % | 2019 Restated % |
|---|---|---|
| UK corporation tax rate | **19.0** | 19.0 |
| Non-taxable (income)/non-deductible expenses | **(0.3)** | 0.5 |
| Overseas tax differentials | **(0.1)** | (0.2) |
| Adjustments in respect of prior years | **(0.1)** | (1.0) |
| **Effective total tax rate on profit before taxation** | **18.5** | 18.3 |

## 6. Taxation (continued)

### 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:

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| *Deferred tax:* | | |
| Pension benefit obligation | **0.5** | 3.2 |
| Fair value movements on derivative instruments | **2.8** | 13.0 |
| **Tax charge in other comprehensive income** | **3.3** | 16.2 |

| | 2020 £m | 2019 £m |
|---|---|---|
| *Current tax:* | | |
| Share-based payments | **(4.5)** | (1.0) |
| Exchange loss recognised outside of profit or loss | – | (0.8) |
| *Deferred tax:* | | |
| Fair value movements on derivative instruments | **(7.7)** | (4.0) |
| Share-based payments | **(9.1)** | 2.1 |
| **Tax (credit) in the Statement of Changes in Equity** | **(21.3)** | (3.7) |

### 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 asset is made up of: | 2020 £m | 2019 Restated £m |
|---|---|---|
| Accelerated capital allowances | **10.0** | 6.3 |
| Revaluation of derivatives to fair value | **5.1** | (0.1) |
| Pension benefit obligations | **(22.7)** | (21.3) |
| Share-based payments | **17.4** | 6.1 |
| IFRS 16 Leases | **38.2** | 41.9 |
| Other temporary differences | **7.7** | 6.2 |
| | **55.7** | 39.1 |

| The deferred tax movement in the year is as follows: | 2020 £m | 2019 Restated £m |
|---|---|---|
| At the beginning of the year | **39.1** | 49.8 |
| Recognised in the Income Statement: | | |
| Accelerated capital allowances | **3.7** | 3.9 |
| Revaluation of derivatives to fair value | **0.3** | (0.2) |
| Share-based payments | **2.2** | 0.5 |
| IFRS 16 Leases | **(3.7)** | (2.1) |
| Other temporary differences | **0.6** | 1.5 |
| Recognised in Other Comprehensive Income | **(3.3)** | (16.2) |
| Recognised in the Statement of Changes in Equity | **16.8** | 1.9 |
| **At the end of the year** | **55.7** | 39.1 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. Taxation (continued)

### 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 2020 £m | Unrecognised deferred tax 2020 £m | Gross value 2019 £m | Unrecognised deferred tax 2019 £m |
|---|---|---|---|---|
| Capital losses | **34.7** | **5.9** | 34.7 | 5.9 |

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

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

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, which 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 25 January 2020** | Paid | Pence per share | Cash Flow Statement £m | Statement of Changes in Equity £m |
|---|---|---|---|---|
| Final ordinary dividend for year to Jan 2019 | **1 Aug 2019** | **110p** | **140.3** | **140.3** |
| Interim ordinary dividend for year to Jan 2020 | **2 Jan 2020** | **57.5p** | **73.3** | **73.3** |
| | | | **213.6** | **213.6** |

| **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 |

No final dividend is proposed but instead the current intention is to announce a second interim dividend at the end of June for payment sometime between August and October in the event that (i) the worst of the virus has passed by that time and (ii) that our finances permit the payment.

The Trustee of the ESOT has waived dividends paid in the year on shares held by the ESOT.

## 8. Earnings Per Share

| | 2020 including IFRS 16 | 2019 including IFRS 16 | 2020 excluding IFRS 16 | 2019 excluding IFRS 16 |
|---|---|---|---|---|
| **Basic Earnings Per Share** | **472.4p** | 441.7p | **459.8p** | 435.3p |

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.

| | 2020 including IFRS 16 | 2019 including IFRS 16 | 2020 excluding IFRS 16 | 2019 excluding IFRS 16 |
|---|---|---|---|---|
| **Diluted Earnings Per Share** | **468.8p** | 439.3p | **456.3p** | 433.0p |

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 2,424,915 non-dilutive share options in the current year (2019: 3,508,782).

| | 2020 including IFRS 16 | 2019 including IFRS 16 | 2020 excluding IFRS 16 | 2019 excluding IFRS 16 |
|---|---|---|---|---|
| **Fully diluted Earnings Per Share** | **449.1p** | 421.0p | **437.1p** | 414.9p |

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 an Alternative Performance Measure (APM) used for the purposes of the Share Matching Plan, described further in Note 24.

The table below shows the key variables used in the Earnings Per Share calculations:

| | 2020 | 2019 Restated |
|---|---|---|
| **Profit after tax attributable to equity holders of the Parent Company (£m)** | **610.2** | 599.1 |
| | | |
| **Weighted average number of shares (millions)** | | |
| Weighted average shares in issue | **134.8** | 140.8 |
| Weighted average shares held by ESOT | **(5.6)** | (5.2) |
| **Weighted average shares for basic EPS** | **129.2** | 135.6 |
| Weighted average dilutive potential shares | **1.0** | 0.7 |
| **Weighted average shares for diluted EPS** | **130.2** | 136.3 |
| | | |
| **Weighted average shares for basic EPS** | **129.2** | 135.6 |
| Weighted average total share options outstanding | **6.7** | 6.7 |
| **Weighted average shares for fully diluted EPS** | **135.9** | 142.3 |

As detailed in the Remuneration Report, the annual bonus for executive directors is determined by reference to underlying pre-tax Earnings per Share of 564.0p (2019: 532.9p). This is calculated using 52 week underlying pre-tax profit, excluding IFRS 16, of £728.5m (2019: £722.9m) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. Property, Plant and Equipment

| | Freehold property £m | Leasehold property £m | Plant and equipment £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| **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** |
| Exchange movement | – | – | 0.1 | 0.1 |
| Additions | 16.6 | – | 122.2 | 138.8 |
| Disposals | – | – | (48.9) | (48.9) |
| **At January 2020** | **97.4** | **9.2** | **1,858.4** | **1,965.0** |
| | | | | |
| **Depreciation** | | | | |
| **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** |
| Exchange movement | – | – | 0.1 | 0.1 |
| Provided during the year | 0.3 | – | 118.9 | 119.2 |
| Impairment charge | – | – | 4.5 | 4.5 |
| Disposals | – | – | (47.4) | (47.4) |
| **At January 2020** | **8.9** | **1.4** | **1,376.2** | **1,386.5** |
| | | | | |
| **Carrying amount** | | | | |
| **At January 2020** | **88.5** | **7.8** | **482.2** | **578.5** |
| At January 2019 | 72.2 | 7.8 | 484.9 | 564.9 |
| At January 2018 | 71.1 | 7.8 | 480.0 | 558.9 |

At January 2020 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £38.2m (2019: £63.8m).

Plant and Equipment includes leasehold improvements. 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 2018 and January 2019** | **4.0** | **44.2** | **48.2** |
| Arising on acquisitions | **0.3** | **1.3** | **1.6** |
| **At January 2020** | **4.3** | **45.5** | **49.8** |
| | | | |
| **Amortisation and impairment** | | | |
| **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** |
| Amortisation provided during the year | – | – | – |
| **At January 2020** | **4.0** | **1.6** | **5.6** |
| | | | |
| **Carrying amount** | | | |
| **At January 2020** | **0.3** | **43.9** | **44.2** |
| At January 2019 | – | 42.6 | 42.6 |
| At January 2018 | 0.3 | 42.6 | 42.9 |

The carrying amount of goodwill is allocated to the following cash generating units:

| | 2020 £m | 2019 £m |
|---|---|---|
| NEXT Sourcing | 30.5 | 30.5 |
| Lipsy | 12.1 | 12.1 |
| Marie Claire Beauty | 1.3 | – |
| | 43.9 | 42.6 |

In July 2019 the group acquired 100% of the share capital of Marie Claire Beauty Limited.

Goodwill is tested for impairment at the Balance Sheet date on the basis of value in use calculations.

### 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 0% (2019: 10% growth rate) and discounted at a pre-tax rate of 10% (2019: 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 5% (2019: 2% to 13%) and discounted at a pre-tax rate of 12% (2019: 12%).

### Marie Claire Beauty

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 5% and discounted at a pre-tax rate of 12%.

For NEXT Sourcing, Lipsy and Marie Claire Beauty the calculated value in use significantly exceeded the carrying value of the goodwill and no impairment was recognised (2019: £Nil). If the assumptions were flexed to assume a growth rate of 0% throughout the 10 year period then the recoverable amount of goodwill would still exceed its carrying value. Therefore, there is no reasonably possible change in any of the key assumptions that would give rise to impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Leases

| Right-of-use assets | 2020 £m | 2019 £m |
|---|---|---|
| Buildings | **133.0** | 147.2 |
| Stores | **705.0** | 785.5 |
| Equipment | **4.9** | 3.0 |
| Vehicles | **9.8** | 8.1 |
| | **852.7** | 943.8 |

| Lease liability | 2020 £m | 2019 £m |
|---|---|---|
| Current | **(172.3)** | (175.6) |
| Non-current | **(1,078.7)** | (1,190.7) |
| | **(1,251.0)** | (1,366.3) |
| Additions to the right-of-use assets | **40.0** | 123.1 |

| Depreciation on right-of-use assets | 2020 £m | 2019 £m |
|---|---|---|
| Buildings | **16.2** | 15.9 |
| Stores | **117.3** | 116.8 |
| Equipment | **1.9** | 1.3 |
| Vehicles | **4.9** | 4.0 |
| | **140.3** | 138.0 |

| | 2020 £m | 2019 £m |
|---|---|---|
| Finance costs on leases | **(61.8)** | (68.4) |
| Expense on short term and low value leases | **7.1** | 5.8 |
| Expense on variable leases | **2.8** | 3.7 |

Additions to right-of-use assets include new leases and extensions to existing lease agreements.

## 12. Associates, Joint Venture and Other Investment

| | Interests in associates and joint venture £m | Other investment £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| **At January 2018** | **1.3** | **1.0** | **2.3** |
| Additions | 3.0* | – | 3.0 |
| Retained profit/(loss) | – | – | – |
| Disposals | – | – | – |
| **At January 2019** | **4.3** | **1.0** | **5.3** |
| Additions | – | – | – |
| Retained loss | (0.1) | – | (0.1) |
| Disposals | – | – | – |
| **At January 2020** | **4.2** | **1.0** | **5.2** |
| | | | |
| **Amortisation/Impairment** | | | |
| **At January 2018** | **0.2** | **–** | **0.2** |
| Provided during the year | – | – | – |
| Impairment charge | – | – | – |
| Disposals | – | – | – |
| **At January 2019** | **0.2** | **–** | **0.2** |
| Provided during the year | – | – | – |
| Impairment charge | – | – | – |
| Disposals | – | – | – |
| **At January 2020** | **0.2** | **–** | **0.2** |
| | | | |
| **Carrying amount** | | | |
| **At January 2020** | **4.0** | **1.0** | **5.0** |
| At January 2019 | 4.1 | 1.0 | 5.1 |
| At January 2018 | 1.1 | 1.0 | 2.1 |

* relates to the purchase of a 30% share in Custom Gateway Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. Customer and Other Receivables

The following table shows the components of net receivables:

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| Gross customer receivables | **1,455.5** | 1,417.2 |
| Less: refund liabilities | **(49.9)** | (44.5) |
| Net customer receivables | **1,405.6** | 1,372.7 |
| Less: allowance for expected credit losses | **(171.5)** | (165.5) |
| | **1,234.1** | 1,207.2 |
| Other trade receivables | **26.4** | 23.8 |
| Less: allowance for expected credit losses | **(0.5)** | (0.5) |
| | **1,260.0** | 1,230.5 |
| | | |
| Presentation of the above, split by total receivables and allowances: | | |
| Net customer receivables | **1,405.6** | 1,372.7 |
| Other trade receivables | **26.4** | 23.8 |
| | **1,432.0** | 1,396.5 |
| Less: allowance for expected credit losses | **(172.0)** | (166.0) |
| | **1,260.0** | 1,230.5 |
| | | |
| Prepayments* | **38.8** | 37.2 |
| Other debtors | **13.3** | 14.7 |
| Amounts due from associate and joint venture | **3.2** | 3.0 |
| | **1,315.3** | 1,285.4 |

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% (2019: 23.9%) at the year-end date, except for £6.0m (2019: £3.1m) of next3step balance that bears interest at 29.9% (2019: 29.9%).

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 allocated to the Risk band 1 (defined in Note 28), 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 £1,200m (2019: £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 27).

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.

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.

* Prepayments in 2019 have been restated as a result of the adoption of IFRS 16 (see Note 32).

## 13. Customer and Other Receivables (continued)

An analysis of changes in the gross carrying amount in relation to customer receivables and other trade receivables is as follows:

| | 2020 | | |
|---|---|---|---|
| Gross carrying amount | Lifetime ECL £m | Credit Impaired £m | Total £m |
| **At 26 January 2019** | **1,317.5** | **79.0** | **1,396.5** |
| New assets originated/recoveries | 96.0 | (12.5) | 83.5 |
| Transfers from lifetime ECL to credit impaired | (55.4) | 55.4 | – |
| Financial assets derecognised during the period | – | (25.9) | (25.9) |
| Amounts written off | (13.9) | (8.2) | (22.1) |
| **At 25 January 2020** | **1,344.2** | **87.8** | **1,432.0** |

An analysis of the changes in the impairment allowance for customer receivables and other trade receivables is as follows:

| | 2020 | | |
|---|---|---|---|
| Loss allowance | Lifetime ECL £m | Credit Impaired £m | Total £m |
| **At 26 January 2019** | **(92.6)** | **(73.4)** | **(166.0)** |
| New assets originated/recoveries | (4.2) | 11.0 | 6.8 |
| Transfers from lifetime ECL to credit impaired | 3.9 | (49.8) | (45.9) |
| Change in the allowance for expected credit losses | (0.4) | 1.9 | 1.5 |
| Financial assets derecognised during the period | – | 23.2 | 23.2 |
| Amounts written off | 1.0 | 7.4 | 8.4 |
| **At 25 January 2020** | **(92.3)** | **(79.7)** | **(172.0)** |

An analysis of changes in the gross carrying amount in relation to customer receivables and other trade receivables in the prior year is as follows:

| | 2019 | | |
|---|---|---|---|
| Gross carrying amount | Lifetime ECL £m | Credit Impaired £m | Total £m |
| **At 27 January 2018** | **1,219.3** | **58.0** | **1,277.3** |
| New assets originated/recoveries | 165.0 | (10.8) | 154.2 |
| 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 in the prior year is as follows:

| | 2019 | | |
|---|---|---|---|
| Loss allowance | Lifetime ECL £m | Credit Impaired £m | Total £m |
| **At 27 January 2018** | **(85.7)** | **(53.1)** | **(138.8)** |
| New assets originated/recoveries | (7.5) | 10.0 | 2.5 |
| 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)** |

New assets originated and recoveries have been represented as a combined figure to simplify the presentation of movements in the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. Customer and Other Receivables (continued)

| | 2020 | | |
|---|---|---|---|
| | Lifetime ECL £m | Credit Impaired £m | Total £m |
| Opening balance | **(92.6)** | **(73.4)** | **(166.0)** |
| Impairment | **(6.5)** | **(37.6)** | **(44.1)** |
| Amounts recovered | **0.9** | **1.7** | **2.6** |
| Charged to the Income Statement | **(5.6)** | **(35.9)** | **(41.5)** |
| Used during the year | **5.9** | **29.6** | **35.5** |
| Total movement | **0.3** | **(6.3)** | **(6.0)** |
| **Closing balance** | **(92.3)** | **(79.7)** | **(172.0)** |

| | 2019 | | |
|---|---|---|---|
| | Lifetime ECL £m | Credit Impaired £m | Total £m |
| Opening balance | (85.7) | (53.1) | (138.8) |
| Impairment | (12.6) | (47.0) | (59.6) |
| Amounts recovered | 1.1 | 5.8 | 6.9 |
| Charged to the Income Statement | (11.5) | (41.2) | (52.7) |
| Used during the year | 4.6 | 20.9 | 25.5 |
| Total movement | (6.9) | (20.3) | (27.2) |
| **Closing balance** | **(92.6)** | **(73.4)** | **(166.0)** |

Information on the Group's credit risk in relation to customer receivables is provided in Note 28.

## 14. Other Financial Assets

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Foreign exchange contracts | **1.7** | **–** | 9.9 | – |
| Interest rate derivatives | **–** | **48.4** | – | 41.5 |
| | **1.7** | **48.4** | 9.9 | 41.5 |

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 29). 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 19).

## 15. Cash and Short Term Deposits

| | 2020 £m | 2019 £m |
|---|---|---|
| Cash at bank and in hand | **86.6** | 156.3 |
| Short term deposits | **–** | – |
| | **86.6** | 156.3 |

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.

## 16. Bank Loans and Overdrafts

| | 2020 £m | 2019 £m |
|---|---|---|
| Bank overdrafts and short term borrowings | **33.7** | 122.3 |
| Unsecured committed bank loans | **40.0** | 255.0 |
| | **73.7** | 377.3 |

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 29).

## 17. Trade Payables and Other Liabilities

| | 2020 | | 2019 Restated | |
|---|---|---|---|---|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Trade payables | **212.8** | **–** | 209.4 | – |
| Refund liabilities | **5.4** | **–** | 6.2 | – |
| Other taxation and social security | **73.4** | **–** | 68.3 | – |
| Deferred revenue from sale of gift cards | **74.9** | **–** | 75.4 | – |
| Share-based payment liability | **0.2** | **0.2** | 0.2 | 0.2 |
| Other creditors and accruals | **225.3** | **14.3** | 236.8 | 8.9 |
| | **592.0** | **14.5** | 596.3 | 9.1 |

Trade payables do not bear interest and are generally settled on 30 day terms. Other creditors and accruals do not bear interest.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. Other Financial Liabilities

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Foreign exchange contracts | **32.6** | **–** | 9.4 | – |
| Interest rate derivatives | **–** | **7.8** | – | 9.2 |
| | **32.6** | **7.8** | 9.4 | 9.2 |

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 28). 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 19).

## 19. Corporate Bonds

| | Balance sheet value | | Nominal value | |
|---|---|---|---|---|
| | 2020 £m | 2019 £m | 2020 £m | 2019 £m |
| Corporate bond 5.375% repayable 2021 | **327.0** | 327.5 | **325.0** | 325.0 |
| Corporate bond 3.000% repayable 2025 | **250.0** | – | **250.0** | – |
| Corporate bond 4.375% repayable 2026 | **286.7** | 277.7 | **250.0** | 250.0 |
| Corporate bond 3.625% repayable 2028 | **300.0** | 300.0 | **300.0** | 300.0 |
| | **1,163.7** | 905.2 | **1,125.0** | 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:

| | 2020 Nominal value £m | 2020 Aggregate interest rate | 2019 Nominal value £m | 2019 Aggregate interest rate |
|---|---|---|---|---|
| *2021 bonds* | | | | |
| 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 | |
| *2025 bonds (new in year)* | | | | |
| Fixed | **250.0** | **3.0%** | – | – |
| *2026 bonds* | | | | |
| Floating | **250.0** | **6m LIBOR +1.4%** | 250.0 | 6m LIBOR +1.4% |
| *2028 bonds* | | | | |
| Fixed | **300.0** | **3.625%** | 300.0 | 3.625% |
| Total | **1,125.0** | | 875.0 | |

Interest rate risk management is explained in Note 28 and the fair values of the corporate bonds are shown in Note 27.

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

The Group's UK pension arrangements include defined benefit and defined contribution sections. The Original Plan and 2013 Plan are established under trust law and comply with all relevant UK legislation. Pension assets are held in separate trustee administered funds which have equal pension rights with respect to members of either sex. 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 will be converted to buy-out in due course 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 25 January 2020 this buy-in policy has a value of £92m (2019: £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 increased the IAS 19 liabilities of the Plan by £0.4m and was recognised in the 2019 disclosures.

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 in 2018. Members pay 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 affected by the change to pensionable salary in 2012 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Pension Benefits (continued)

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 take inflation into account. Therefore an increase in inflation would increase the value of pension liabilities. The assets would be expected to also increase, to the extent that they are linked to inflation, but this would not be expected to fully match the increase in liabilities. |
| Longevity risk | The present value of the defined benefit liabilities is calculated having regards to a best estimate of the mortality of plan members. If members live longer than this mortality assumption, this will increase the liabilities. |

The buy-in insurance contracts represent over 99% of the Original Plan pension liabilities, 13% of the 2013 Plan pension liabilities and 26% of the total pension liabilities. This partially offsets the total risks described above. Derivatives are not used to hedge any of the risks noted above.

### Income statement

The components of the net defined benefit expense, recognised in the Consolidated Income Statement within Administrative expenses are as follows:

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

### Other comprehensive income

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

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

## 20. Pension Benefits (continued)

### Balance sheet valuation

The net defined benefit pension asset recognised in the Consolidated Balance Sheet is analysed as follows:

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Present value of benefit obligations | (735.1) | (141.5) | (17.3) | (893.9) | (617.8) | (134.5) | (16.4) | (768.7) |
| Fair value of plan assets | 883.6 | 143.7 | – | 1,027.3 | 757.2 | 136.5 | – | 893.7 |
| **Net pension asset/(liability)** | 148.5 | 2.2 | (17.3) | 133.4 | 139.4 | 2.0 | (16.4) | 125.0 |

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

### Plan obligations

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

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

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

### Plan assets

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Pension Benefits (continued)

### Plan assets (continued)

The fair value of plan assets was as follows:

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | Total £m | % | 2013 Plan £m | Original Plan £m | Total £m | % |
| Equities | 169.4 | – | 169.4 | 16.5 | 183.5 | – | 183.5 | 20.6 |
| Equity-linked bonds | 70.4 | – | 70.4 | 6.9 | 54.4 | – | 54.4 | 6.1 |
| Bonds | 116.8 | – | 116.8 | 11.4 | 98.5 | – | 98.5 | 11.0 |
| Gilts | 323.7 | 2.4 | 326.1 | 31.7 | 231.5 | 2.2 | 233.7 | 26.1 |
| Property | 109.9 | – | 109.9 | 10.7 | 102.3 | – | 102.3 | 11.4 |
| Insurance contracts | 92.3 | 141.2 | 233.5 | 22.7 | 79.2 | 134.3 | 213.5 | 23.9 |
| Cash and cash equivalents | 1.1 | – | 1.1 | 0.1 | 7.8 | – | 7.8 | 0.9 |
| | 883.6 | 143.6 | 1,027.2 | 100.0 | 757.2 | 136.5 | 893.7 | 100.0 |

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

### Principal assumptions

The IAS 19 (accounting) valuation of the defined benefit obligation was undertaken by an external qualified actuary as at January 2020 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Original plan | 2013 and SPA | Original plan | 2013 and SPA |
| Discount rate | 1.70% | 1.75% | 2.70% | 2.90% |
| Inflation – RPI | 3.25% | 2.80% | 3.40% | 3.15% |
| Inflation – CPI | 2.25% | 1.90% | 2.40% | 2.15% |
| Salary increases | – | – | – | – |
| Pension increases in payment | | | | |
| – RPI with a maximum of 5.0% | 3.10% | 2.75% | 3.20% | 2.95% |
| – RPI with a maximum of 2.5% and discretionary increases | 2.15% | 1.90% | 2.20% | 2.05% |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Pensioner aged 65 | Non-pensioner aged 45 | Pensioner aged 65 | Non-pensioner aged 45 |
| Life expectancy at age 65 (years) | | | | |
| Male | 22.3 | 24.5 | 22.6 | 24.4 |
| Female | 24.2 | 26.5 | 24.8 | 26.6 |

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

The rate of retail price inflation (RPI) has been derived in a consistent way to the discount rate, so that it is appropriate to the term of the liabilities. In previous years, the RPI assumption for the 2013 Plan and SPA allowed for the inflation risk premium of 0.2% per annum, however this was updated to 0.3% per annum for the 2020 year end to allow for the RPI reform expected from 2030. As in previous years, the Original Plan does not allow for an inflation risk premium because its assets and liabilities are almost fully matched.

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

# 20. Pension Benefits (continued)

## Principal assumptions (continued)

For the 2013 Plan and the SPA, the base mortality assumptions reflect the best estimate output from a postcode mortality study. This results in an assumption in line with the standard SAPS Series 3 All Pensioner tables (with a multiplier of 101% for male and female pensioners and 103% for male non-pensioners and 100% for female non-pensioners). Future improvement trends have been allowed for in line with the most recent CMI core projection model (CMI 2018) with a long term trend towards 1.5% per annum and a smoothing factor of 7.5.

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

## Sensitivity analysis

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

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

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

The sensitivities shown are just one possible outcome and should not be taken as an indication of the likelihood of a change occurring in the future. 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

An 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 2019 the 2013 Plan was estimated to be fully funded on a Technical Provisions basis with a surplus in the region of £28m, therefore a deficit contribution was not payable in January 2020.

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

The 2013 Plan is currently undergoing a triennial funding valuation as at 30 September 2019, which is expected to show a small deficit at that point in time on the Technical Provisions basis. Discussions with the Trustee are advanced and the Valuation is expected to be formalised shortly.

## 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 5% of Pensionable Earnings, which is matched by the Group.

Contributions paid by the Group during the year are set out below:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Defined contribution – recognised as an expense | **18.0** | 14.3 |
| Automatic enrolment – recognised as an expense | **12.6** | 7.2 |
| Defined benefit | **7.3** | 7.7 |
| | **37.9** | 29.2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Pension Benefits (continued)

### Contributions (continued)

Employer contributions to the defined benefit section in the year ahead are expected to be around £11m assuming a contribution of £4m is paid in October 2020, although in practice this is contingent on the funding (Technical Provisions) level 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 £13m, including salary sacrifice contributions.

## 21. Provisions

| | Property costs | |
|---|---|---|
| | **2020 £m** | 2019 Restated £m |
| At the beginning of the year | **15.7** | 17.1 |
| Provisions made in the year | **1.0** | 0.9 |
| Utilisation of provisions | **–** | (2.9) |
| Unwind of discount | **0.6** | 0.6 |
| At the end of the year | **17.3** | 15.7 |

Provision is made for the committed cost or estimated exit costs of properties occupied by the Group.

## 22. Share Capital

| | **2020 Shares '000** | 2019 Shares '000 | **2020 £m** | 2019 £m |
|---|---|---|---|---|
| **Allotted, called up and fully paid** | | | | |
| *Ordinary shares of 10p each* | | | | |
| At the start of the year | **138,606** | 144,882 | **13.9** | 14.5 |
| Purchased for cancellation in the year | **(5,377)** | (6,276) | **(0.6)** | (0.6) |
| **At the end of the year** | **133,229** | 138,606 | **13.3** | 13.9 |

The table below shows the movements in equity from share purchases and commitments during the year:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Shares '000** | **Cost £m** | Shares '000 | Cost £m |
| Shares purchased for cancellation in the year | **5,377** | **300.2** | 6,276 | 324.2 |
| Amount shown in Statement of Changes in Equity | | **300.2** | | 324.2 |

Subsequent to the end of the financial year and before the start of the closed period, the Company purchased for cancellation 279,639 shares at a cost of £19.3m.

## 23. 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 of £1,460.7m less share premium account of £3.8m and capital redemption reserve of £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 of £0.7m, less the unrealised component of revaluations of properties arising under previous accounting standards of £5.1m as at the date of transition to IFRS.

## 24. 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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **No. of options** | **Weighted average exercise price** | No. of options | Weighted average exercise price |
| Outstanding at beginning of year | **6,118,155** | **£47.71** | 5,582,795 | £47.12 |
| Granted | **1,521,902** | **£53.85** | 1,477,311 | £47.35 |
| Exercised | **(1,581,139)** | **£43.15** | (416,282) | £36.66 |
| Forfeited | **(417,763)** | **£51.59** | (525,669) | £49.23 |
| Outstanding at end of year | **5,641,155** | **£50.36** | 6,118,155 | £47.71 |
| Exercisable at end of year | **1,509,481** | **£57.99** | 1,794,711 | £53.85 |

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was £64.35 (2019: £53.95). Options outstanding at 25 January 2020 are exercisable at prices ranging between £20.70 and £70.80 (2019: £13.99 and £70.80) and have a weighted average remaining contractual life of 6.2 years (2019: 5.9 years), as analysed in the table below:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **No. of options** | **Weighted average remaining contractual life (years)** | No. of options | Weighted average remaining contractual life (years) |
| Exercise price range | | | | |
| £13.99 – £41.09 | **1,391,365** | **5.9** | 2,229,862 | 5.1 |
| £41.12 – £48.23 | **1,057,631** | **2.9** | 894,123 | 3.5 |
| £48.38 | **1,021,695** | **8.2** | 1,118,063 | 9.2 |
| £51.84 – £61.27 | **1,308,102** | **8.4** | 859,435 | 6.6 |
| £66.95 – £70.80 | **862,362** | **4.7** | 1,016,672 | 5.7 |
| | **5,641,155** | **6.2** | 6,118,155 | 5.9 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. Share-based Payments (continued)

### 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. Under the current 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 which is permitted 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:

| | 2020 No. of options | 2019 No. of options |
|---|---|---|
| Outstanding at beginning of year | **39,454** | 45,564 |
| Granted | **9,018** | 10,374 |
| Exercised | **–** | – |
| Forfeited | **(11,782)** | (16,484) |
| Outstanding at end of year | **36,690** | 39,454 |
| Exercisable at end of year | **–** | – |

The weighted average remaining contractual life of these options is 5.0 years (2019: 5.4 years). During the year ending 25 January 2020 and 26 January 2019 no SMP options were exercised as the awards did not vest.

### Long Term Incentive Plan (LTIP)

As explained in the Remuneration Report, the Group operates an equity-settled LTIP scheme for executive directors and other senior executives. Performance conditions for the LTIP awards are detailed in the Remuneration Report.

The following table summarises the movements in nil cost LTIP awards during the year:

| | 2020 Awards | 2019 Awards |
|---|---|---|
| Outstanding at beginning of year | **476,889** | 487,442 |
| Granted | **195,015** | 186,306 |
| Vested | **(47,654)** | (11,442) |
| Forfeited | **(81,501)** | (185,417) |
| Outstanding at end of year | **542,749** | 476,889 |

The weighted average remaining contractual life of these options is 1.4 years (2019: 1.5 years).

### Profit Sharing Bonus Plan

The Profit Sharing Bonus Plan provides for options over shares in NEXT for senior employees of Lipsy Limited. Under the arrangement, a profit bonus equal to 3.6% of the average of the post tax profits of Lipsy and any subsidiaries of Lipsy in respect of the financial years ending January 2023 and January 2024, multiplied by ten is payable. Fifty per cent of the profit bonus will be settled in cash with the balance settled in either shares in NEXT (calculated based on the share price at the date of grant) or in cash, or a combination thereof, at the choice of the participants. The participants also have a right to receive up to a 15% cash draw down of value in each year up to an aggregate of 60% based on the average of the post-tax profits of the two most recent financial years of Lipsy in each year (Draw Down). The value of the profit bonus will be reduced to reflect any value which has been received under the Draw Down.

The Share Awards are structured as nil cost options and during the year 159,164 options were granted in accordance with the terms of the Plan and remained outstanding at the year end. As the Profit Sharing Bonus Plan can be cash-settled, the recognition of a liability on the balance sheet is remeasured to fair value each reporting period until it is settled, with any change in fair value recorded in profit or loss. The liability is recognised within Other creditors, non-current liabilities.

# 24. Share-based Payments (continued)

## Fair value calculations

The fair value of Management, Sharesave and Share Matching Plan 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 25 January 2020 and 26 January 2019 based on information at the date of grant:

| Management share options | 2020 | 2019 |
|---|---|---|
| Share price at date of grant | **£56.46** | £48.38 |
| Exercise price | **£56.46** | £48.38 |
| Volatility | **30.00%** | 28.40% |
| Expected life | **4 years** | 4 years |
| Risk free rate | **0.78%** | 1.06% |
| Dividend yield | **2.83%** | 3.27% |
| Weighted average fair value per option | **£10.35** | £8.09 |

| Sharesave plans | 2020 | 2019 |
|---|---|---|
| Share price at date of grant | **£60.28** | £54.34 |
| Exercise price | **£48.23** | £43.48 |
| Volatility | **29.44%** | 31.35% |
| Expected life | **3.2 years** | 3.3 years |
| Risk free rate | **0.46%** | 0.79% |
| Dividend yield | **2.74%** | 2.91% |
| Weighted average fair value per option | **£14.90** | £14.07 |

| Share Matching Plan | 2020 | 2019 |
|---|---|---|
| Share price at date of grant | **£58.50** | £51.86 |
| Exercise price | **Nil** | Nil |
| Volatility | **31.30%** | 31.10% |
| Expected life | **3 years** | 3 years |
| Risk free rate | **0.76%** | 0.93% |
| Dividend yield | **0.00%** | 0.00% |
| Weighted average fair value per option | **£58.50** | £51.86 |

The fair value of 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 25 January 2020 and 26 January 2019 based on information at the date of grant:

| LTIP awards (granted in March) | 2020 | 2019 |
|---|---|---|
| Share price at date of grant | **£48.11** | £48.75 |
| Award price | **Nil** | Nil |
| Volatility | **32.47%** | 30.62% |
| Life of award | **3 years** | 3 years |
| Risk free rate | **0.67%** | 0.95% |
| Dividend yield | **0.00%** | 0.00% |
| Fair value per award | **£23.83** | £22.78 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. Share-based Payments (continued)

### Fair value calculations (continued)

| LTIP awards (granted in September) | 2020 | 2019 |
|---|---|---|
| Share price at date of grant | £59.88 | £54.00 |
| Award price | Nil | Nil |
| Volatility | 29.01% | 31.40% |
| Life of award | 3 years | 3 years |
| Risk free rate | 0.46% | 0.87% |
| Dividend yield | 0.00% | 0.00% |
| Fair value per award | £29.87 | £26.27 |

From September 2017, for all new LTIP awards, dividend accruals (both in respect of special and ordinary dividends) may be payable on vested awards.

## 25. 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 to satisfy all awards which vest/are exercised in accordance with the terms of the various share-based schemes detailed in Note 24.

At 25 January 2020 the ESOT held 5,430,961 (2019: 5,463,200) ordinary shares of 10p each in the Company, the market value of which amounted to £390.7m (2019: £261.0m). Details of outstanding share awards and options are shown in Note 24.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOT at 25 January 2020 and 26 January 2019 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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Shares '000 | £m | Shares '000 | £m |
| Shares purchased by ESOT in the year | 1,551 | 94.2 | 1,085 | 61.9 |
| Shares issued in respect of employee share schemes | 1,583 | 65.5 | 448 | 15.3 |

Proceeds of £66.9m (2019: £15.8m) were received on the exercise of Management and Sharesave options. The amount shown in the Statement of Changes in Equity of £65.5m (2019: £15.3m) 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 £80.9m (2019: £21.9m).

At 18 March 2020, employee share options over 84,382 shares had been exercised subsequent to the Balance Sheet date and had been satisfied by ordinary shares issued by the ESOT.

## 26. Financial Instruments: Categories

| | 2020 £m | 2019 Restated £m |
|---|---|---|
| *Financial assets* | | |
| Derivatives not designated as hedging instruments | **0.3** | 0.1 |
| Derivatives designated as hedging instruments | **49.8** | 51.3 |
| Customer and other receivables at amortised cost* | **1,276.2** | 1,247.8 |
| Cash and short term deposits | **86.6** | 156.3 |
| Non-listed equity instruments designated at fair value through OCI | **1.0** | 1.0 |
| *Financial liabilities* | | |
| Derivatives not designated as hedging instruments | **(2.3)** | (0.6) |
| Derivatives designated as hedging instruments | **(38.1)** | (18.0) |
| Lease liabilities | **(1,251.0)** | (1,366.3) |
| Interest-bearing loans and borrowings: | | |
| Corporate bonds at amortised cost adjusted for the fair value changes attributable to the risk being hedged | **(1,163.7)** | (905.2) |
| Bank loans and overdrafts at amortised cost | **(73.7)** | (377.3) |
| Trade and other payables at amortised cost** | **(442.4)** | (435.3) |

* Prepayments of £38.8m (2019: £37.2m) and other debtors of £0.3m (2019: £0.4m) do not meet the definition of a financial instrument.

** Other taxation and social security payables of £73.4m (2019: £68.3m), deferred income of £74.9m (2019: £75.4m), share-based payment liabilities of £0.4m (2019: £0.4m) and other creditors of £15.4m (2019: £28.3m) do not meet the definition of a financial instrument.

## 27. 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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Corporate bonds** | Carrying amount £m | Fair value £m | Carrying amount £m | Fair value £m |
| In hedging relationships | **463.7** | **481.6** | 455.2 | 461.3 |
| Not in hedging relationships | **700.0** | **772.0** | 450.0 | 469.0 |
| | **1,163.7** | **1,253.6** | 905.2 | 930.3 |

Corporate bonds are held at amortised cost adjusted for the fair value changes attributable to the interest rate risk being hedged.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. Financial Instruments: Fair Values (continued)

### 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 prices 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 market data (unobservable market data) | Non-listed equity instruments at fair value through OCI | The fair value of these non-listed equity investments has been estimated using a discounted cash flow model. |

## 28. 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.

# 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

## Liquidity risk (continued)

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:

| 2020 | Less than 1 year £m | 1 to 2 years £m | 2 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| Bank loans and overdrafts | 73.7 | – | – | – | 73.7 |
| Lease liabilities | 214.0 | 199.9 | 457.9 | 694.0 | 1,565.8 |
| Trade and other payables | 420.3 | 12.7 | – | – | 433.0 |
| Corporate bonds | 46.8 | 371.8 | 87.9 | 872.9 | 1,379.4 |
| | 754.8 | 584.4 | 545.8 | 1,566.9 | 3,451.9 |
| Derivatives: net settled | (6.4) | (6.8) | (16.8) | (11.0) | (41.0) |
| Derivatives: gross settled | | | | | |
| Cash inflows | (881.6) | – | – | – | (881.6) |
| Cash outflows | 905.6 | – | – | – | 905.6 |
| **Total cash flows** | 772.4 | 577.6 | 529.0 | 1,555.9 | 3,434.9 |

| 2019 restated | Less than 1 year £m | 1 to 2 years £m | 2 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| Bank loans and overdrafts | 377.3 | – | – | – | 377.3 |
| Lease liabilities | 239.5 | 209.5 | 483.8 | 752.4 | 1,685.2 |
| Trade and other payables | 425.5 | 7.5 | – | – | 433.0 |
| Corporate bonds | 39.3 | 39.3 | 407.9 | 637.2 | 1,123.7 |
| | 1,081.6 | 256.3 | 891.7 | 1,389.6 | 3,619.2 |
| 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** | 1,068.7 | 250.6 | 878.1 | 1,378.5 | 3,575.9 |

At 25 January 2020, the Group had borrowing facilities of £450.0m (2019: £625.0m) committed until November 2024, in respect of which all conditions precedent have been met. £40.0m of the facility was drawn down at January 2020 (2019: £255.0m).

## 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 19.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

### Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Group's most significant risk exposure affected by these changes relates to its corporate bonds. The notional amount of interest rates swaps designated within fair value hedges relating to LIBOR is disclosed below.

In calculating the change in fair value attributable to the hedged risk for the fixed-rate bond, the Group has assumed that pre-existing fallback provisions in the corporate bonds do not apply to IBOR reform and that no other changes to the terms of the hedged items or hedging instruments are anticipated.

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:

| | 2020<br>£m | 2019<br>£m |
|---|---|---|
| Derivatives in designated fair value hedging relationships | **40.6** | 32.3 |

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 25 January 2020** | **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 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 |

The impact of the hedging instrument on the Balance Sheet is as follows:

| **At 25 January 2020** | **Notional amount £m** | **Carrying amount* £m** | **Line item in the Balance Sheet** | **Changes in fair value used for measuring ineffectiveness in the period £m** |
|---|---|---|---|---|
| Interest rate swaps – assets | **425.0** | **48.4** | Other financial assets | **6.8** |
| Interest rate swaps – liabilities | **150.0** | **(7.8)** | Other financial liabilities | **1.5** |
| 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 |

* The carrying amount of derivatives includes £1.9m of interest accrual (2019: £1.9m).

# 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

## Effect of IBOR reform (continued)

The impact of the hedged items on the Balance Sheet is as follows:

| At 25 January 2020 | 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 |
|---|---|---|---|---|
| Fixed-rate borrowings | **275.0** | **38.8** | Corporate bonds | **8.5** |
| At 26 January 2019 | | | | |
| Fixed-rate borrowings | 275.0 | 30.2 | Corporate bonds | 3.3 |

The ineffectiveness recognised in the Income Statement for the period ended 25 January 2020 was a loss of £0.2m (2019: gain of £0.2m).

## 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 29.

## 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:

| | 2020 £m | 2019 £m |
|---|---|---|
| Derivatives in designated hedging relationships | **(29.0)** | 0.9 |
| Other foreign exchange derivatives not designated in hedging relationships | **(1.9)** | (0.4) |
| **Total foreign exchange derivatives** | **(30.9)** | 0.5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

### Foreign currency hedges (continued)

Derivatives designated in hedging relationships at 25 January 2020:

| | Maturity | | | |
|---|---|---|---|---|
| **US Dollars (highly probable forecast purchases)** | **1–6 months** | **6–12 months** | **More than one year** | **Total** |
| Notional amount (in £m) | **497.8** | **236.8** | **–** | **734.6** |
| Average GBP: USD contract rate | **1.26** | **1.25** | **–** | **1.26** |
| **EURO (highly probable forecast purchases)** | | | | |
| Notional amount (in £m) | **53.4** | **–** | **–** | **53.4** |
| Average GBP: EURO contract rate | **1.17** | **–** | **–** | **1.17** |
| **Other (highly probable forecast sales)** | | | | |
| Notional amount (in £m) | **52.2** | **1.8** | **–** | **54.0** |
| Average GBP: Other contract rate | Various currencies* | | | |

* 6 currencies are hedged, which are individually not material to the financial statements.

Derivatives designated in hedging relationships at 26 January 2019:

| | Maturity | | | |
|---|---|---|---|---|
| **US Dollars (highly probable forecast purchases)** | 1–6 months | 6–12 months | More than one year | Total |
| 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 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 25 January 2020** | **Notional amount £m** | **Carrying amount £m** | **Line item in the Balance Sheet** | **Changes in fair value used for measuring ineffectiveness in the period £m** |
|---|---|---|---|---|
| Foreign exchange contracts | **167.4** | **1.7** | Other financial assets | **35.4** |
| Foreign exchange contracts | **1,095.7** | **(32.6)** | Other financial liabilities | **(24.9)** |
| At 26 January 2019 | | | | |
| Foreign exchange contracts | 368.4 | 9.9 | Other financial assets | 53.6 |
| Foreign exchange contracts | 515.0 | (9.4) | Other financial liabilities | 20.1 |

# 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

## Foreign currency hedges (continued)

The impact of the hedged items on the Balance sheet is as follows:

| | 25 January 2020 | | | 26 January 2019 | | |
|---|---|---|---|---|---|---|
| | 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 | **(1.0)** | **(1.1)** | **–** | 1.2 | 1.2 | – |
| Highly probable forecast stock purchases | **11.5** | **(28.9)** | **0.1** | 72.5 | (0.7) | 0.5 |

The effect of the cash flow hedge in the Income Statement or other comprehensive income is as follows:

| **Year ended 25 January 2020** | Ineffectiveness recognised in Income Statement £m | Recycled to cost of inventories £m | Cost of hedging recognised in OCI £m | Amount reclassified from OCI to the Income Statement £m | Line item in the Income Statement |
|---|---|---|---|---|---|
| Highly probable forecast sales | **–** | **–** | **–** | **(0.1)** | **Revenue** |
| Highly probable forecast stock purchases | **–** | **(40.4)** | **–** | **–** | **–** |
| Year ended 26 January 2019 | | | | | |
| Highly probable forecast sales | – | – | – | 0.7 | Revenue |
| Highly probable forecast stock purchases | – | (20.3) | 0.5 | – | – |

## 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 £1,260.0m at the reporting date (2019: £1,230.5m). These are detailed in Note 13.

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 creditworthiness 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 2020 there were 2.64m active customers (2019: 2.58m) with an average balance of £532 (2019: £533). The Group's outstanding receivables balances and impairment losses are detailed in Note 13. 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 a value of £26.8m at January 2020 (2019: £23.5m) were on Reduced Payment Indicator (RPI) plans. An allowance for Expected Credit Losses (ECLs) of £18.0m (2019: £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 customer indebtedness would otherwise suggest. Any modification gain or loss recognised is immaterial to the financial statements.

The Group uses Experian Delphi for Customer Management which provides a suite of characteristics and scores to monitor the credit behaviour of new and existing customers. The principal score for making risk decisions around credit limit changes, and monitoring the risk of associated sales, is the Account and Arrears Management ("AAM") score. The principal measure to assess a customer's ability to afford repayments, and our allowance for expected credit losses under IFRS 9, is the Consumer Indebtedness Index ("CII"). The CII is a score within the range of 1 to 99. A lower CII score is representative of a lower level of risk associated with the debt (i.e. a lower CII score indicates the customer has a greater ability to afford repayments).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

### Credit risk (continued)

The following table contains an analysis of customer and other receivables segmented by CII score. For the purpose of this analysis trade receivables are recognised in Risk band 1.

| | 2020 Total £m | 2019 Total £m |
|---|---|---|
| *Risk exposure determined by CII score* | | |
| Risk band 1 (CII<=10) | **648.8** | 612.7 |
| Risk band 2 (10>CII=<20) | **355.3** | 354.5 |
| Risk band 3 (20>CII=<47) | **239.3** | 246.1 |
| Risk band 4 (47>CII) | **100.8** | 104.2 |
| **Gross carrying amount before credit impaired** | **1,344.2** | 1,317.5 |
| Credit impaired | **87.8** | 79.0 |
| **Gross carrying amount after credit impaired** | **1,432.0** | 1,396.5 |
| Loss allowance | **(172.0)** | (166.0) |
| **Carrying amount** | **1,260.0** | 1,230.5 |

Analysis of customer receivables and other trade receivables, stratified by credit grade, is as follows:

| 2020 | 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 | Payment plans £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Customer receivables and other trade receivables** | | | | | | | | |
| Risk band 1 (CII<=10) | 631.3 | 13.6 | 0.8 | 0.2 | – | 0.1 | 2.8 | 648.8 |
| Risk band 2 (10>CII=<20) | 333.9 | 12.9 | 1.7 | 0.5 | 0.2 | 0.4 | 5.7 | 355.3 |
| Risk band 3 (20>CII=<47) | 212.5 | 13.6 | 2.8 | 1.5 | 1.0 | 0.8 | 7.1 | 239.3 |
| Risk band 4 (47>CII) | 67.8 | 8.6 | 3.5 | 2.7 | 2.7 | 4.3 | 11.2 | 100.8 |
| Otherwise impaired | – | – | – | – | – | 87.8 | – | 87.8 |
| **Total** | **1,245.5** | **48.7** | **8.8** | **4.9** | **3.9** | **93.4** | **26.8** | **1,432.0** |
| **Loss allowance** | | | | | | | | |
| Risk band 1 (CII<=10) | (3.9) | (0.2) | (0.1) | (0.1) | – | (0.1) | (1.2) | (5.6) |
| Risk band 2 (10>CII=<20) | (11.4) | (1.0) | (0.5) | (0.2) | (0.1) | (0.3) | (3.0) | (16.5) |
| Risk band 3 (20>CII=<47) | (23.0) | (2.2) | (1.3) | (1.0) | (0.6) | (0.6) | (4.4) | (33.1) |
| Risk band 4 (47>CII) | (15.2) | (2.8) | (2.4) | (2.0) | (2.1) | (3.2) | (9.4) | (37.1) |
| Otherwise impaired | – | – | – | – | – | (79.7) | – | (79.7) |
| **Total** | **(53.5)** | **(6.2)** | **(4.3)** | **(3.3)** | **(2.8)** | **(83.9)** | **(18.0)** | **(172.0)** |
| **Expected loss rate %** | | | | | | | | |
| Risk band 1 (CII<=10) | 0.6% | 1.8% | 14.9% | 20.5% | – | 34.2% | 42.7% | 0.9% |
| Risk band 2 (10>CII=<20) | 3.4% | 7.4% | 32.0% | 51.2% | 53.3% | 66.7% | 52.7% | 4.7% |
| Risk band 3 (20>CII=<47) | 10.8% | 16.4% | 46.5% | 62.1% | 62.4% | 75.8% | 61.7% | 13.8% |
| Risk band 4 (47>CII) | 22.3% | 32.4% | 68.1% | 73.7% | 80.7% | 74.2% | 84.2% | 36.8% |
| Otherwise impaired | – | – | – | – | – | 90.8% | – | 90.8% |
| **Total** | **4.3%** | **12.7%** | **49.6%** | **66.9%** | **74.1%** | **89.8%** | **67.1%** | **12.0%** |

# 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

## Credit risk (continued)

| 2019 | 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 | Payment plans £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Customer receivables and other trade receivables** | | | | | | | | |
| Risk band 1 (CII<=10) | 595.2 | 13.3 | 1.2 | 0.2 | 0.3 | 0.4 | 2.1 | 612.7 |
| Risk band 2 (10>CII=<20) | 334.3 | 12.6 | 1.8 | 0.6 | 0.2 | 0.3 | 4.7 | 354.5 |
| Risk band 3 (20>CII=<47) | 219.0 | 13.4 | 4.0 | 1.6 | 0.9 | 0.6 | 6.6 | 246.1 |
| Risk band 4 (47>CII) | 69.5 | 9.0 | 5.2 | 3.7 | 3.8 | 2.9 | 10.1 | 104.2 |
| Otherwise impaired | – | – | – | – | – | 79.0 | – | 79.0 |
| **Total** | **1,218.0** | **48.3** | **12.2** | **6.1** | **5.2** | **83.2** | **23.5** | **1,396.5** |
| **Loss allowance** | | | | | | | | |
| Risk band 1 (CII<=10) | (3.3) | (0.2) | (0.1) | – | – | (0.1) | (1.1) | (4.8) |
| Risk band 2 (10>CII=<20) | (10.4) | (1.0) | (0.4) | (0.3) | (0.1) | (0.2) | (2.8) | (15.2) |
| Risk band 3 (20>CII=<47) | (22.4) | (2.3) | (1.4) | (0.9) | (0.6) | (0.4) | (4.6) | (32.6) |
| Risk band 4 (47>CII) | (17.0) | (3.4) | (2.8) | (2.5) | (2.8) | (2.1) | (9.4) | (40.0) |
| Otherwise impaired | – | – | – | – | – | (73.4) | – | (73.4) |
| **Total** | **(53.1)** | **(6.9)** | **(4.7)** | **(3.7)** | **(3.5)** | **(76.2)** | **(17.9)** | **(166.0)** |
| **Expected loss rate %** | | | | | | | | |
| Risk band 1 (CII<=10) | 0.5% | 1.6% | 5.3% | 6.6% | 6.9% | 22.6% | 51.6% | 0.8% |
| Risk band 2 (10>CII=<20) | 3.1% | 7.7% | 21.2% | 53.5% | 70.1% | 66.2% | 60.9% | 4.3% |
| Risk band 3 (20>CII=<47) | 10.2% | 17.3% | 33.7% | 55.4% | 64.1% | 63.6% | 69.9% | 13.2% |
| Risk band 4 (47>CII) | 24.5% | 38.0% | 55.9% | 67.9% | 73.3% | 71.9% | 92.6% | 38.4% |
| Otherwise impaired | – | – | – | – | – | 92.9% | – | 92.9% |
| **Total** | **4.4%** | **14.3%** | **38.5%** | **60.8%** | **67.0%** | **91.5%** | **76.2%** | **11.9%** |

Customer receivables and other trade receivables have been represented to separately identify those customers under RPI plans as the directors do not regard these customers as being overdue.

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 (2019: £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 30, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29. 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 | |
|---|---|---|---|---|
| | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| Interest rate increase of 0.5% | **(1.4)** | (2.6) | **(1.4)** | (2.6) |
| Interest rate decrease of 0.5% | **1.4** | 2.6 | **1.4** | 2.6 |

### 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 | |
|---|---|---|---|---|
| | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| *Sterling strengthens by 10%* | | | | |
| US Dollar | **(4.2)** | (0.8) | **(47.3)** | (49.1) |
| Euro | **–** | – | **(1.6)** | 0.6 |
| *Sterling weakens by 10%* | | | | |
| US Dollar | **2.1** | (1.1) | **58.2** | 54.7 |
| Euro | **–** | – | **1.9** | (0.7) |

Year-end exchange rates applied in the above analysis are US Dollar 1.31 (2019: 1.32) and Euro 1.19 (2019: 1.15). 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.

## 30. Analysis of Net Debt

| | January 2019 £m | Cash flow £m | Other non-cash charges: Fair value changes £m | Other non-cash charges: IFRS 16 £m | January 2020 £m |
|---|---|---|---|---|---|
| Cash and short term deposits | 156.3 | | | | **86.6** |
| Overdrafts and short term borrowings | (122.3) | | | | **(33.7)** |
| Cash and cash equivalents | 34.0 | 18.9 | – | – | **52.9** |
| Unsecured committed bank loans | (255.0) | 215.0 | – | – | **(40.0)** |
| Corporate bonds | (905.2) | (250.2) | (8.3) | – | **(1,163.7)** |
| Fair value hedges of corporate bonds | 30.4 | – | 8.3 | – | **38.7** |
| **Net debt excluding leases** | (1,095.8) | (16.3) | – | – | **(1,112.1)** |
| | | | | | |
| Current lease liability | (175.6) | 224.4 | – | (221.1) | **(172.3)** |
| Non-current lease liability | (1,190.7) | – | – | 112.0 | **(1,078.7)** |
| | (1,366.3) | 224.4 | – | (109.1) | **(1,251.0)** |
| **Net debt including leases** | **(2,462.1)** | **208.1** | **–** | **(109.1)** | **(2,363.1)** |

## 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:

| | 2020 £m | 2019 £m |
|---|---|---|
| Sales | **6.6** | 7.0 |
| Amounts outstanding at year end | **0.9** | 0.5 |

During the year the Group entered into the following transactions with its joint venture Retail Restaurants Limited, as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Loans advanced | **0.4** | 0.7 |
| Recharge of costs and loan interest | **0.1** | 0.5 |
| Amounts outstanding at year end | **2.9** | 2.5 |

The loan of £2.9m 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:

| | 2020 £m | 2019 £m |
|---|---|---|
| Costs recharged by Custom Gateway | **(0.7)** | (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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. IFRS 16 transition note

| Impact on profit for the period | Notes | 52 weeks to 25 January 2020 Excluding IFRS 16 £m | Adjustments on adoption of IFRS 16 £m | 52 weeks to 25 January 2020 £m |
|---|---|---|---|---|
| **Total revenue** | | 4,266.2 | – | 4,266.2 |
| Cost of sales | (i) | (2,706.7) | 81.0 | (2,625.7) |
| **Gross profit** | | 1,559.5 | 81.0 | 1,640.5 |
| Distribution costs | | (517.8) | 0.8 | (517.0) |
| Administrative costs | | (267.7) | – | (267.7) |
| Other losses | | (1.5) | – | (1.5) |
| **Trading profit** | | 772.5 | 81.8 | 854.3 |
| Share of results of associates and joint venture | | (0.4) | – | (0.4) |
| **Operating profit** | | 772.1 | 81.8 | 853.9 |
| Finance income | | 0.2 | – | 0.2 |
| Finance costs | (i) | (43.8) | (61.8) | (105.6) |
| **Profit before taxation** | | 728.5 | 20.0 | 748.5 |
| Taxation | (v) | (134.6) | (3.7) | (138.3) |
| **Profit attributable to equity holders** | | 593.9 | 16.3 | 610.2 |

| Impact on profit for the period | Notes | 52 weeks to 26 January 2019 Excluding IFRS 16 £m | Adjustments on adoption of IFRS 16 £m | 52 weeks to 26 January 2019 Restated £m |
|---|---|---|---|---|
| **Total revenue** | | 4,167.4 | – | 4,167.4 |
| Cost of sales | (i) | (2,693.2) | 78.3 | (2,614.9) |
| **Gross profit** | | 1,474.2 | 78.3 | 1,552.5 |
| Distribution costs | | (458.3) | 0.8 | (457.5) |
| Administrative costs | | (255.4) | – | (255.4) |
| Other gains | | 1.4 | – | 1.4 |
| **Trading profit** | | 761.9 | 79.1 | 841.0 |
| Share of results of associates and joint venture | | 0.1 | – | 0.1 |
| **Operating profit** | | 762.0 | 79.1 | 841.1 |
| Finance income | | 0.4 | – | 0.4 |
| Finance costs | (i) | (39.5) | (68.4) | (107.9) |
| **Profit before taxation** | | 722.9 | 10.7 | 733.6 |
| Taxation | (v) | (132.5) | (2.0) | (134.5) |
| **Profit attributable to equity holders** | | 590.4 | 8.7 | 599.1 |

## 32. IFRS 16 transition note (continued)

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

| | Notes | 25 January 2020 £m | IFRS 16 Adjustment £m | 25 January 2020 £m |
|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 578.5 | – | 578.5 |
| Intangible assets | | 44.2 | – | 44.2 |
| Right-of-use asset | (ii) | – | 852.7 | 852.7 |
| Associates, joint venture and other investment | | 5.0 | – | 5.0 |
| Defined benefit pension asset | | 133.4 | – | 133.4 |
| Other financial assets | | 48.4 | – | 48.4 |
| Deferred tax assets | (v) | 17.5 | 38.2 | 55.7 |
| | | 827.0 | 890.9 | 1,717.9 |
| **Current assets** | | | | |
| Inventories | | 527.6 | – | 527.6 |
| Customer and other receivables | (iv) | 1,367.9 | (52.6) | 1,315.3 |
| Right of return asset | | 24.2 | – | 24.2 |
| Other financial assets | | 1.7 | – | 1.7 |
| Cash and short term deposits | | 86.6 | – | 86.6 |
| | | 2,008.0 | (52.6) | 1,955.4 |
| **Total assets** | | 2,835.0 | 838.3 | 3,673.3 |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | | (73.7) | – | (73.7) |
| Trade payables and other liabilities | (iv) | (640.6) | 48.6 | (592.0) |
| Lease liabilities | (iii) | – | (172.3) | (172.3) |
| Other financial liabilities | | (32.6) | – | (32.6) |
| Current tax liabilities | | (79.2) | – | (79.2) |
| | | (826.1) | (123.7) | (949.8) |
| **Non-current liabilities** | | | | |
| Corporate bonds | | (1,163.7) | – | (1,163.7) |
| Provisions | (iv) | (12.4) | (4.9) | (17.3) |
| Other financial liabilities | | (7.8) | – | (7.8) |
| Lease liabilities | (iii) | – | (1,078.7) | (1,078.7) |
| Other liabilities | (iv) | (212.1) | 197.6 | (14.5) |
| Deferred tax liabilities | | – | – | – |
| | | (1,396.0) | (886.0) | (2,282.0) |
| **Total liabilities** | | (2,222.1) | (1,009.7) | (3,231.8) |
| **NET ASSETS** | | 612.9 | (171.4) | 441.5 |
| **TOTAL EQUITY** | | 612.9 | (171.4) | 441.5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. IFRS 16 transition note (continued)

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

| | Notes | 26 January 2019 £m | IFRS 16 Adjustment £m | 26 January 2019 Restated £m |
|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 564.9 | – | 564.9 |
| Intangible assets | | 42.6 | – | 42.6 |
| Right-of-use asset | (ii) | – | 943.8 | 943.8 |
| Associates, joint venture and other investment | | 5.1 | – | 5.1 |
| Defined benefit pension asset | | 125.0 | – | 125.0 |
| Other financial assets | | 41.5 | – | 41.5 |
| Deferred tax assets | (v) | – | 41.9 | 41.9 |
| | | 779.1 | 985.7 | 1,764.8 |
| **Current assets** | | | | |
| Inventories | | 502.8 | – | 502.8 |
| Customer and other receivables | (iv) | 1,339.8 | (54.4) | 1,285.4 |
| Right of return asset | | 23.4 | – | 23.4 |
| Other financial assets | | 9.9 | – | 9.9 |
| Cash and short term deposits | | 156.3 | – | 156.3 |
| | | 2,032.2 | (54.4) | 1,977.8 |
| **Total assets** | | 2,811.3 | 931.3 | 3,742.6 |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | | (377.3) | – | (377.3) |
| Trade payables and other liabilities | (iv) | (640.7) | 44.4 | (596.3) |
| Lease liabilities | (iii) | – | (175.6) | (175.6) |
| Other financial liabilities | | (9.4) | – | (9.4) |
| Current tax liabilities | | (85.1) | – | (85.1) |
| | | (1,112.5) | (131.2) | (1,243.7) |
| **Non-current liabilities** | | | | |
| Corporate bonds | | (905.2) | – | (905.2) |
| Provisions | (iv) | (10.3) | (5.4) | (15.7) |
| Other financial liabilities | | (9.2) | – | (9.2) |
| Lease liabilities | (iii) | – | (1,190.7) | (1,190.7) |
| Other liabilities | (iv) | (217.5) | 208.4 | (9.1) |
| Deferred tax liabilities | | (2.8) | – | (2.8) |
| | | (1,145.0) | (987.7) | (2,132.7) |
| **Total liabilities** | | (2,257.5) | (1,118.9) | (3,376.4) |
| **NET ASSETS** | | 553.8 | (187.6) | 366.2 |
| **TOTAL EQUITY** | | 553.8 | (187.6) | 366.2 |

## 32. IFRS 16 transition note (continued)

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

| | Notes | 27 January 2018 £m | IFRS 16 Adjustment £m | 27 January 2018 Restated £m |
|---|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 558.9 | – | 558.9 |
| Intangible assets | | 42.9 | – | 42.9 |
| Right-of-use asset | (ii) | – | 948.9 | 948.9 |
| Associates, joint venture and other investment | | 2.1 | – | 2.1 |
| Defined benefit pension asset | | 106.2 | – | 106.2 |
| Other financial assets | | 48.1 | – | 48.1 |
| Deferred tax assets | (v) | 5.8 | 44.0 | 49.8 |
| | | 764.0 | 992.9 | 1,756.9 |
| **Current assets** | | | | |
| Inventories | | 466.7 | – | 466.7 |
| Customer and other receivables | (iv) | 1,248.2 | (55.7) | 1,192.5 |
| Right of return asset | | 23.4 | – | 23.4 |
| Other financial assets | | 5.7 | – | 5.7 |
| Cash and short term deposits | | 53.5 | – | 53.5 |
| | | 1,797.5 | (55.7) | 1,741.8 |
| **Total assets** | | 2,561.5 | 937.2 | 3,498.7 |
| **Current liabilities** | | | | |
| Bank loans and overdrafts | | (180.0) | – | (180.0) |
| Trade payables and other liabilities | (iv) | (580.2) | 39.9 | (540.3) |
| Lease liabilities | (iii) | – | (165.8) | (165.8) |
| Other financial liabilities | | (59.3) | – | (59.3) |
| Current tax liabilities | | (95.3) | – | (95.3) |
| | | (914.8) | (125.9) | (1,040.7) |
| **Non-current liabilities** | | | | |
| Corporate bonds | | (908.5) | – | (908.5) |
| Provisions | (iv) | (10.4) | (6.7) | (17.1) |
| Other financial liabilities | | (12.4) | – | (12.4) |
| Lease liabilities | (iii) | – | (1,213.8) | (1,213.8) |
| Other liabilities | (iv) | (232.8) | 212.9 | (19.9) |
| | | (1,164.1) | (1,007.6) | (2,171.7) |
| **Total liabilities** | | (2,078.9) | (1,133.5) | (3,212.4) |
| **NET ASSETS** | | 482.6 | (196.3) | 286.3 |
| **TOTAL EQUITY** | | 482.6 | (196.3) | 286.3 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. IFRS 16 transition note (continued)

(i) **Income Statement**

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

On adoption of IFRS 16 these costs have been removed and replaced with costs calculated on an IFRS 16 basis. The impact of removing these costs on the January 2020 Income Statement was £222.1m (2019: £217.1m).

Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Group has recognised the depreciation costs on the right-of-use asset in cost of sales. The impact of this adjustment in the January 2020 Income Statement was £140.3m (2019: £138.0m).

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to cost of sales and distribution costs. The net impact of this adjustment in the January 2020 Income Statement was £81.8m (2019: £79.1m).

Under IFRS 16 finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the January 2020 Income Statement was £61.8m (2019: £68.4m).

The net impact of the above adjustments to the January 2020 profit before tax was £20.0m (2019: £10.7m).

(ii) **Right-of-use asset**

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

(iii) **Lease liability**

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

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

(iv) **Working capital**

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

(v) **Taxation**

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

# PARENT COMPANY FINANCIAL STATEMENTS


194 Parent Company Balance Sheet

195 Parent Company Statement of Changes in Equity

196 Notes to the Parent Company Financial Statements

# PARENT COMPANY BALANCE SHEET

| | Notes | 25 January 2020 £m | 26 January 2019 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | C2 | **2,475.7** | 2,475.7 |
| Other financial assets | C3 | **–** | 41.5 |
| | | **2,475.7** | 2,517.2 |
| **Current assets** | | | |
| Other debtors | C4 | **154.1** | 405.2 |
| Corporation tax | | **0.1** | – |
| Cash at bank and in hand | | **0.2** | 21.6 |
| | | **154.4** | 426.8 |
| Creditors: amounts falling due within one year | C5 | **(502.2)** | (508.6) |
| **Net current liabilities** | | **(347.8)** | (81.8) |
| **Total assets less current liabilities** | | **2,127.9** | 2,435.4 |
| Creditors: amounts falling due after more than one year | C5 | **–** | (914.4) |
| **Total liabilities** | | **(502.2)** | (1,423.0) |
| **NET ASSETS** | | **2,127.9** | 1,521.0 |
| **Capital and reserves** | | | |
| Called up share capital | C6 | **13.3** | 13.9 |
| Share premium account | | **0.9** | 0.9 |
| Capital redemption reserve | | **16.6** | 16.0 |
| ESOT reserve | C6 | **(284.8)** | (271.6) |
| Other reserves | C6 | **985.2** | 985.2 |
| Profit and loss account | C7 | **1,396.7** | 776.6 |
| **TOTAL EQUITY** | | **2,127.9** | 1,521.0 |

The profit for the year dealt with in the accounts of the Company is £1,134.6m (2019: £561.0m).

The financial statements were approved by the Board of directors and authorised for issue on 19 March 2020. 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 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** |
| Profit for the year | – | – | – | – | – | 1,134.6 | **1,134.6** |
| Other comprehensive income for the year | – | – | – | – | – | – | **–** |
| Total comprehensive income for the year | – | – | – | – | – | 1,134.6 | **1,134.6** |
| Share buybacks and commitments (Note C6) | (0.6) | – | 0.6 | – | – | (300.2) | **(300.2)** |
| ESOT share purchases and commitments (Note C6) | – | – | – | (94.1) | – | – | **(94.1)** |
| Shares issued by ESOT | – | – | – | 80.9 | – | (15.4) | **65.5** |
| Share option charge | – | – | – | – | – | 14.7 | **14.7** |
| Equity dividends | – | – | – | – | – | (213.6) | **(213.6)** |
| **At 25 January 2020** | **13.3** | **0.9** | **16.6** | **(284.8)** | **985.2** | **1,396.7** | **2,127.9** |

# 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 137 to 148. 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 (2019: £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 | Desford Road, Enderby, Leicester, LE19 4AT, UK | 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 | Pinewood Court, Larkwood Way, Tytherington Business Park, Macclesfield, SK10 2XR | 30 |
| Lipsy Limited | Desford Road, Enderby, Leicester, LE19 4AT, UK | 100 |
| LLC Next | 7 Dolgorukovskaya Street, 127006, Moscow, Russian Federation | 100 |
| Marie Claire Beauty Limited | Desford Road, Enderby, Leicester, LE19 4AT, UK | 100 |
| Next (Asia) Limited | 14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong | 100 |
| Next Sourcing Limited Shanghai Office | Suites 2501–02, 25F Lippo Plaza, 222 Huai Hai Middle Road, Shanghai, China | 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-E-NA Portugal, Unipessoal LDA | R. dos Transitários 182 RCH, 4455–565 Matosinhos, Portugal | 100 |
| Next Europe & North Africa Morocco SARL | Jean Jaures SARL, 49 rue Jean Jaurès, Quartier Gauthier, 6ème étage, Apt N° 12, Casablanca, Morocco | 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 |
| 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 14 of the consolidated financial statements, which are carried at their fair value.

## C4. Other Debtors

| | 2020 £m | 2019 £m |
|---|---|---|
| Amounts due from subsidiary undertaking | **154.1** | 400.0 |
| Other receivables | – | 0.4 |
| Prepayments | – | 4.8 |
| | **154.1** | 405.2 |

## C5. Current and Non-current Creditors

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Corporate bonds | – | – | – | 905.2 |
| Unsecured bank loans | – | – | 255.0 | – |
| Short term borrowings | – | – | 37.0 | – |
| Amounts due to subsidiary undertaking | **502.1** | – | 192.6 | – |
| Corporation tax creditor | – | – | 1.0 | – |
| Accruals and other creditors | **0.1** | – | 23.0 | 9.2 |
| | **502.2** | – | 508.6 | 914.4 |

Further information on the Company's corporate bonds is given in Note 19. Other financial liabilities include interest rate swaps carried at fair value (refer to Note 18).

During the prior year, 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.

## C6. Share Capital, ESOT and Other Reserves

Details of the Company's share capital and share buybacks are given in Note 22. ESOT transactions are detailed in Note 25. Other reserves in the Company Balance Sheet of £985.2m (2019: £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 £284.8m (2019: £271.6m). At January 2020, therefore, the amount available for distribution by reference to these accounts is £1,111.9m (2019: £505.0m). 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.

# SHAREHOLDER INFORMATION

199 Half Year and Segment Analysis
200 Five Year History
201 Glossary
204 Notice of Meeting
216 Other Shareholder Information

# HALF YEAR AND SEGMENT ANALYSIS (UNAUDITED)[1]

| | **First half £m** | **Second half £m** | **52 weeks to Jan 2020 £m** | First half £m | Second half £m | 52 weeks to Jan 2019 Restated[2] £m |
|---|---|---|---|---|---|---|
| **Total sales[1]** | | | | | | |
| NEXT Retail | 874.3 | 977.6 | **1,851.9** | 925.1 | 1,030.0 | 1,955.1 |
| NEXT Online | 1,004.9 | 1,141.7 | **2,146.6** | 892.3 | 1,026.5 | 1,918.8 |
| NEXT Finance | 134.0 | 134.7 | **268.7** | 122.0 | 128.3 | 250.3 |
| NEXT International Retail | 28.9 | 27.9 | **56.9** | 30.9 | 31.3 | 62.2 |
| NEXT Sourcing | 3.4 | 6.1 | **9.5** | 2.9 | 4.0 | 6.9 |
| Lipsy | 5.9 | 7.2 | **13.1** | 7.8 | 7.3 | 15.1 |
| Property Management | 7.4 | 7.8 | **15.2** | 5.2 | 7.3 | 12.5 |
| **Total** | **2,058.8** | **2,303.0** | **4,361.8** | 1,986.2 | 2,234.7 | 4,220.9 |
| | | | | | | |
| **Profit before tax** | | | | | | |
| NEXT Retail | 56.0 | 107.9 | **163.9** | 73.2 | 139.1 | 212.3 |
| NEXT Online | 177.1 | 222.5 | **399.6** | 163.3 | 189.3 | 352.6 |
| NEXT Finance[2] | 75.8 | 70.9 | **146.7** | 60.9 | 66.4 | 127.3 |
| NEXT International Retail | 3.1 | 3.1 | **6.2** | 3.0 | 3.2 | 6.2 |
| NEXT Sourcing | 16.9 | 15.1 | **32.0** | 14.8 | 14.8 | 29.6 |
| Lipsy | 5.7 | 7.3 | **13.0** | 3.6 | 7.4 | 11.0 |
| Property Management | 0.2 | (2.4) | **(2.2)** | 4.4 | 2.3 | 6.7 |
| **Total segment profit** | **334.8** | **424.4** | **759.2** | 323.2 | 422.5 | 745.7 |
| Recharge of interest[2] | 17.8 | 18.5 | **36.3** | 16.8 | 17.2 | 34.0 |
| Other activities | (11.7) | (11.7) | **(23.4)** | (9.5) | (8.2) | (17.7) |
| Net finance costs | (21.3) | (22.3) | **(43.6)** | (19.4) | (19.7) | (39.1) |
| **Profit before tax excluding IFRS 16** | **319.6** | **408.9** | **728.5** | 311.1 | 411.8 | 722.9 |
| IFRS 16 | 7.8 | 12.2 | 20.0 | 3.8 | 6.9 | 10.7 |
| **Profit before tax including IFRS 16** | **327.4** | **421.1** | **748.4** | 314.9 | 418.7 | 733.6 |

1. As defined in Note 1 to the Consolidated Financial Statements.
2. Refer to the note on change in prior year comparatives on page 149.

# FIVE YEAR HISTORY (UNAUDITED)

| **Excluding IFRS 16**<br>**Year to January** | **2020**<br>**£m** | 2019<br>£m | 2018<br>£m | 2017<br>£m | 2016<br>£m |
|---|---|---|---|---|---|
| *Underlying[1] continuing business* | | | | | |
| Total sales[2] | **4,361.8** | 4,220.9 | 4,117.5 | 4,136.8 | 4,213.7 |
| Statutory revenue | **4,266.2** | 4,167.4 | 4,090.7 | 4,097.3 | 4,176.9 |
| Operating profit – underlying 52 weeks | **772.1** | 762.0 | 759.9 | 827.7 | 851.8 |
| Net finance costs – underlying 52 weeks | **(43.6)** | (39.1) | (33.8) | (37.5) | (30.5) |
| **Profit before tax – underlying 52 weeks** | **728.5** | 722.9 | 726.1 | 790.2 | 821.3 |
| 53rd week (pre-tax) | – | – | – | – | 14.8 |
| Taxation | **(134.6)** | (132.5) | (134.3) | (154.9) | (169.3) |
| **Profit after taxation** | **593.9** | 590.4 | 591.8 | 635.3 | 666.8 |
| Total equity | **612.9** | 553.8 | 482.6 | 510.5 | 311.8 |
| Shares purchased for cancellation | **5.4m** | 6.3m | 2.2m | 3.6m | 2.2m |
| Dividends per share – ordinary | **174.0p** | 165.0p | 158.0p | 158.0p | 158.0p |
| – special | – | – | 180.0p | – | 240.0p |
| Basic Earnings Per Share | | | | | |
| Underlying (52 weeks) | **459.8p** | 435.3p | 416.7p | 441.3p | 442.5p |
| Total | **459.8p** | 435.3p | 416.7p | 441.3p | 450.5p |

| **IFRS 16 basis**<br>**Year to January** | **2020**<br>**£m** | 2019<br>£m |
|---|---|---|
| *Underlying[1] continuing business* | | |
| Total sales[2] | **4,361.8** | 4,220.9 |
| Statutory revenue | **4,266.2** | 4,167.4 |
| Operating profit – underlying 52 weeks | **853.9** | 841.1 |
| Net finance costs – underlying 52 weeks | **(105.4)** | (107.5) |
| **Profit before tax – underlying 52 weeks** | **748.5** | 733.6 |
| 53rd week (pre-tax) | – | – |
| Exceptional items (pre-tax) | – | – |
| Taxation | **(138.3)** | (134.5) |
| **Profit after taxation** | **610.2** | 599.1 |
| Total equity | **441.5** | 366.2 |
| Shares purchased for cancellation | **5.4m** | 6.3m |
| Dividends per share – ordinary | **174.0p** | 165.0p |
| Basic Earnings Per Share | | |
| Underlying (52 weeks) | **472.4p** | 441.7p |
| Total | **472.4p** | 441.7p |

1. Underlying is shown pre-exceptional items.
2. As defined in Note 1 to the Consolidated Financial Statements.

# GLOSSARY

## Alternative Performance Measures (APMs)

| APM Definition | Closest equivalent statutory measure | Purpose and reconciliation to closest statutory measure where applicable |
|---|---|---|
| **Average active customers**<br>Those customers who have purchased products using their Online account, or received a standard account statement in the last 20 weeks. Customers can be either Online credit or cash customers. | None | Active customers have a strong correlation with interest income on the Finance P&L and helps drive understanding on movements in income.<br>Reconciliation to closest equivalent statutory measure not applicable. |
| **Average debtor balance**<br>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. | None | Average debtor balance has a strong correlation with interest income on the Finance P&L and helps drive understanding on movements in income. It also helps to evaluate the overall health of the balance sheet for the Finance business.<br>The average debtor balance in FY20 was £1,185m. The statutory accounts do not disclose the monthly debtor balance but they do disclose the year-end balance in Note 13 to the financial statements. |
| **Bad debt charge**<br>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. | Impairment losses | Measurement of the quality of the online debtor book. A lower bad debt charge indicates that the quality and recoverability of the balance is higher.<br>The bad debt charge is the total of the in-year impairment charge, less amounts recovered. This is presented in Note 13 of the Financial Statements. |
| **Bought-in gross margin**<br>Difference between the cost of stock and initial selling price, expressed as a percentage of achieved total VAT exclusive selling prices. | None | Bought-in gross margin is a measure of the profit made on the sale of stock at full price. This is a key internal management metric for assessing category performance.<br>Reconciliation to closest equivalent statutory measure not applicable. |
| **Branch profitability**<br>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. | None | Measurement of the Retail business profit by physical branch. Provides an indication of the performance of the store portfolio.<br>Reconciliation to closest equivalent statutory measure not applicable. |
| **Cost of funding**<br>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. | None | Required to evaluate the underlying profitability of the Finance business.<br>There is no statutory equivalent as this is a metric specific to how the Group manages its funding and cost allocations.<br>However the closest measure would be to take external interest, excluding lease interest, per Note 5 of the Financial Statements, and multiply this by 85%.<br>Note 5 interest cost excluding leases is £43.8m, 85% of which is £37.2m. Actual cost of funding £36.3m (disclosed in Note 1). |
| **Credit sales**<br>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. | None | Credit sales are a direct indicator of the performance and profitability of the Finance business.<br>Reconciliation to closest equivalent statutory measure not applicable. |

# GLOSSARY

## Alternative Performance Measures (APMs)

| APM Definition | Closest equivalent statutory measure | Purpose and reconciliation to closest statutory measure where applicable |
|---|---|---|
| **Divisional operating profit**<br>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. | Segment profit | A direct indicator of the performance of each division making up the total Group operating profit. A commonly used metric that provides a useful method of performance comparison across the Group.<br>The divisional operating profits are the same as the Segment profits presented in Note 1 of the Financial Statements. They do not include the impact of IFRS 16. |
| **Earnings Per Share (EPS) excluding IFRS 16**<br>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. | Earnings per share (including IFRS 16) | A measure of the financial health of the Group and its ability to deliver returns to shareholders. A commonly used metric that can be used to compare performance to other businesses.<br>To reconcile the EPS excluding IFRS 16 to the statutory EPS the impact of IFRS 16 on the profit after taxation must be included in the Earnings part of the EPS calculation.<br>Note 8 of the Financial Statements presents both EPS excluding IFRS 16 and EPS including IFRS 16. |
| **Full price sales**<br>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. | Revenue – sale of goods | Full price sales are a direct indicator of the performance and profitability of the business. |
| **Interest income**<br>The gross interest billed to nextpay and next3step customers, before any deduction for unpaid interest on bad debt. | Revenue – credit account interest | Interest income is a direct indicator of the performance and profitability of the Finance business.<br>This is presented on the face of the Income Statement and note 1 of the Financial Statements. |
| **Like-for-like sales**<br>Change in sales from Retail stores which have been open for at least one full year. | None | 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.<br>Reconciliation to closest equivalent statutory measure not applicable. |
| **Net debt**<br>Comprises cash and cash equivalents, bank loans, corporate bonds, fair value hedges of corporate bonds but excludes lease debt.<br>Net debt is a measure of the Group's indebtedness. | Statutory net debt | This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.<br>As used in the Annual Report this excludes the debt on leases unless otherwise stated.<br>Net debt is reconciled to statutory net debt (which includes leases) in Note 30 of the Financial Statements. |
| **Net operating margin**<br>Profit after deducting markdowns and all direct and indirect trading costs, expressed as a percentage of achieved total sales. | None | A measure of the profitability of the Group. A commonly used metric that can be used to compare performance to other businesses.<br>Net margin measures whether profitability is changing at a higher or lower rate relative to revenue. |
| **Net profit (NEXT Finance)**<br>The profit, including interest income and the bad debt charge, and after the allocation of central overheads and the cost of funding. | Profit before tax | A measure of direct profitability of the Finance business.<br>The Net profit for the Finance Business is presented in Note 1 to the financial statements. It does not include the impact of IFRS 16. |

| APM Definition | Closest equivalent statutory measure | Purpose and reconciliation to closest statutory measure where applicable |
|---|---|---|
| **Return on Capital Employed – ROCE (NEXT Finance)**<br>The NEXT Finance net profit (after the interest charge relating to the cost of funding), divided by the average debtor balance. | None | A commonly used metric that can be used to compare performance to other financial businesses.<br><br>It measures the profit (ie return) relative to the amount of capital employed. The higher the ROCE the greater the return for the capital employed in the business.<br><br>The ROCE for NEXT Finance in the year to January 2020 was calculated by dividing the Operating profit for segment of £146.7m by the average debt balance of £1,185m. As a percentage this is 12.4% (2019: 11.2%).<br><br>The Operating profit for the segment is disclosed in Note 1 to the financial statements. |
| **Surplus cash**<br>Cash flow after capital expenditure, interest, tax and ordinary dividends but before financing any increase in Online debtors. | None | A measure of the cash generated by the business after it has funded its operations in the year.<br><br>It provides a useful metric of the potential funds generated in the year that could be used to finance an increase in Online growth or other investment activity. This is calculated by reference to the statutory cash flow and Note 13 to the financial statements: |
| **Total sales**<br>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). | Revenue – sale of goods | Total sales are a direct indicator of the performance and profitability of the business.<br><br>Total sales are reconciled to Statutory sales in Note 1 to the Financial Statements. |
| **Underlying like-for-like sales**<br>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. | None | This metric enables the performance of the Retail stores to be measured on a consistent year-on-year basis, without distortion from new openings, and is a common term used in the retail industry. |
| **Underlying profit and Earnings Per Share**<br>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. | None | This metric enables the profitability of the Group and its ability to return funds to shareholders to be evaluated consistently year on year, and against other businesses.<br><br>EPS is disclosed in Note 8 of the Financial Statements. The group has not incurred any exceptional items in either the year January 2020 or the year to January 2019.<br><br>However, as used in the CEO report, underlying profit and EPS exclude the impact of IFRS 16, Leases.<br><br>To reconcile the underlying EPS to the statutory EPS the impact of IFRS 16 on the profit after taxation must be included in the Earnings part of the EPS calculation.<br><br>Note 8 of the Financial Statements presents both EPS excluding IFRS 16 and EPS including IFRS 16. |

Surplus cash reconciliation:

| | £m |
|---|---|
| Cash generated from operations: | 927.2 |
| Cash from investing activities: | (139.1) |
| Lease repayment: | (162.6) |
| Interest paid: | (100.9) |
| Dividends: | (213.6) |
| ESOT: | (27.3) |
| +85% of debt book (Note 13): | 23.0 |
| Surplus cash: | 306.7 |

# 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 registered office of Next plc, Desford Road, Enderby, Leicester LE19 4AT on Thursday 14 May 2020 at 9.30 am.

**Potential impact of Coronavirus (COVID-19) on the AGM**

The Company is closely monitoring developments relating to the current outbreak of COVID-19, including the related public health guidance and legislation issued by the UK Government. At the time of publication of this Notice, the UK Government has prohibited public gatherings of more than two people and non-essential travel, save in certain limited circumstances.

In light of these measures, the AGM this year will be run as a closed meeting and shareholders will not be able to attend in person. The Company will make arrangements such that the legal requirements to hold the meeting can be satisfied through the attendance of a minimum number of people and the format of the meeting will be purely functional.

Shareholders are therefore strongly encouraged to submit a proxy vote in advance of the meeting. Details on how to submit your proxy vote by post, online or through CREST are set out on pages 214 and 215 of this Notice. Given the current restrictions on attendance, shareholders are encouraged to appoint the Chairman of the Meeting as their proxy rather than a named person who will not be permitted to attend the meeting.

Shareholders may submit queries on resolutions to be put to the AGM using the form available on the Company's website at nextplc.co.uk/contact-us.

This situation is constantly evolving, and the UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Any changes to the AGM (including any change to the location of the AGM) will be communicated to shareholders before the meeting through our website at nextplc.co.uk/investors/shareholder-information/company-meetings and, where appropriate, by RIS announcement.

The following resolutions will be proposed at the AGM, resolutions 1 to 19 as ordinary resolutions and 20 to 26 as special resolutions. **Further information on these resolutions can be found in the Appendix to this Notice.**

1 To receive and adopt the accounts and reports of the directors and auditor for the year ended 25 January 2020.

2 To approve the Directors' Remuneration Policy, the full text of which is contained in the Directors' Remuneration Report and set out on pages 100 to 110.

3 To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) set out on pages 96 to 121.

To re-elect the following directors who are seeking annual re-election in accordance with the UK Corporate Governance Code:

4 Jonathan Bewes

5 Tristia Harrison

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 2021 AGM of the Company.

14 To authorise the Audit Committee, on behalf of the Board, to set the remuneration of the Company's auditor in respect of its appointment for the period ending at the conclusion of the next AGM.

15 That the directors be authorised to amend the rules of the NEXT Long Term Incentive Plan (LTIP) to reflect a change in the maximum opportunity for participants, as explained on page 98.

16 Extension of Next Share Matching Plan

That the rules of the Next Share Matching Plan 2010 (the "SMP"), produced in draft to this meeting (the terms of which are summarised in Appendix 2 to this Notice of Meeting) and, for the purposes of identification, initialled by the Chairman, be and are hereby extended for a further ten years and the directors be authorised to:

a. do all acts and things which they may consider necessary or expedient for the purposes of implementing and giving effect to the SMP; and

b. establish and/or extend further plans based on the SMP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the SMP.

17 Extension of Next Sharesave Plan

That the rules of the Next Sharesave Plan 2010 (the "Sharesave"), produced in draft to this meeting (the terms of which are summarised in Appendix 3 to this Notice of Meeting) and, for the purposes of identification, initialled by the Chairman, be and are hereby extended for a further ten years and the directors be authorised to:

a. make such modifications to the Sharesave as they may consider appropriate in order to qualify for tax-advantaged status under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003; and

b. do all acts and things which they may consider necessary or expedient for the purposes of implementing and giving effect to the Sharesave.

c. establishing and/or extending further plans based on the Sharesave (including the 2009 Sharesave Plan (Republic of Ireland)) but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the Sharesave.

18 Extension of Next Management Share Option Plan

That the rules of the Next Management Share Option Plan 2014 (the "MSOP"), produced in draft to this meeting (the terms of which are summarised in Appendix 4 to this Notice of Meeting) and, for the purposes of identification, initialled by the Chairman, be and are hereby extended for a further ten years and the directors be authorised to:

a. make such modifications to the MSOP as they may consider appropriate in order to qualify for tax-advantaged status under Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003; and

b. do all acts and things which they may consider necessary or expedient for the purposes of implementing and giving effect to the MSOP; and

c. establish and/or extend further plans based on the MSOP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the MSOP.

19 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 £4,400,000 (as reduced by any equity securities allotted under paragraph (a)(ii) below); and

ii. up to a maximum nominal amount of £8,800,000 (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 14 August 2021.

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).

20 General disapplication of pre-emption rights

That, subject to resolution 19 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 £664,000 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 14 August 2021; 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).

21 Additional disapplication of pre-emption rights

That, subject to resolutions 19 and 20 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 £664,000 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 14 August 2021; and

d. other than in respect of authorities granted pursuant to resolution 20, 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).

# NOTICE OF MEETING

22 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 19,929,000 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 23 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 14 August 2021;

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.

23 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, HSBC Bank plc and Barclays Bank plc (the "Bank(s)") (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 on pages 208 to 210. 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 14 August 2021 (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).

24 Increasing the Company's borrowing powers

That the Articles be amended by deleting the present article 67 (borrowing powers) and replacing it with a new article 67 in order to increase the directors' powers to incur borrowings from the higher of £2bn or an amount equal to two times adjusted total equity to the higher of £2.5bn or an amount equal to two times adjusted total equity (as defined in the Articles) of the Company. For these purposes borrowings do not include operational leases.

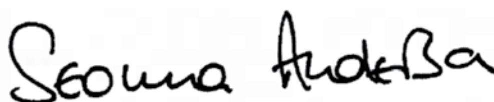
25 Routine amendments to the articles of association

That the articles of association produced to the meeting and signed by the Chairman of the meeting for the purpose of identification, are adopted as the articles of association of the Company in substitution for, and to the exclusion of, the Company's existing articles of association.

26 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



**Seonna Anderson**
Company Secretary
Registered Office: Desford Road, Enderby, Leicester LE19 4AT

14 April 2020

# APPENDIX 1

## Explanatory notes to resolutions

### 1 To receive and adopt the report and accounts

Shareholders are asked to receive and adopt the Strategic Report, Directors' Report, and the financial statements for the year ended 25 January 2020, together with the report of the auditor.

### 2 To approve the Directors' Remuneration Policy

The Directors' Remuneration Policy is being submitted for shareholder approval as part of the normal three-year cycle. Minor changes are proposed from the current Policy; details are set out on pages 97 to 110.

Subject to shareholder approval, the Policy, in the form set out on pages 100 to 110 of the annual report for the year ended 25 January 2020, will be effective from the conclusion of this AGM.

### 3 To approve the Directors' Remuneration Report

The Directors' Remuneration Report sets out the pay and benefits received by each of the directors for the year ended 25 January 2020 and is subject to an advisory vote by shareholders. The Report (excluding the Directors' Remuneration Policy) is set out on pages 96 to 121 of the annual report for the year ended 25 January 2020.

### 4–12 Directors

In accordance with the UK Corporate Governance Code 2018, all directors will stand for re-election at this year's AGM.

Directors' biographies are set out on pages 80 and 81 of the annual report and provide a summary of the range of skills, knowledge and experience of each director.

Following a formal performance evaluation, the Chairman confirms that each director has demonstrated that they continue to be an effective and valuable member of the Board and that they remain committed to their role (including making sufficient time available for Board and Committee meetings and other duties).

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.

Francis Salway is the longest serving non-executive director, having been appointed in June 2010. In our January 2019 Annual Report we disclosed that Francis intended to step down from the Board at the 2020 AGM. During 2019, the Nomination Committee conducted an external search process to appoint a replacement for Francis Salway as non-executive director and Chair of the Remuneration Committee. The role profile was aligned to the desired Board composition, taking into account the Board's skills matrix and diversity, and governance principles for candidates to have at least 12 months' experience on a remuneration committee.

We recognise that governance is an ethos rather than a tick box exercise and, in this increasingly complex governance arena, occasionally we have to balance conflicting governance requirements. Having considered feedback from interviews with short-listed candidates, and mindful of its responsibility to appoint on merit suitably strong members to the Board, the Nomination Committee has decided to recommence its search. To ensure that we continue to have an appropriately independent Board, and to enable an orderly handover once the right candidate has been found, the Board asked Francis to stay on the Board for a further year until the 2021 AGM. In doing so, the Committee took into account:

- the results of the Board performance evaluation, which confirmed that Francis remained appropriately independent and that he continued to make a significant contribution to the Board, particularly in his role as Remuneration Committee chairman throughout the remuneration policy renewal process;
- the average tenure of the non-executive directors at four years, with the newest non-executive director having been appointed in September 2018. Therefore, the independence of the Board as a whole was unlikely to be compromised by the extension of Francis' term; and
- the importance of continuity and the value that experienced Directors can bring to the Board and the Group.

The Board therefore recommends his re-election.

### 13 and 14 Appointment and remuneration of auditor

On the recommendation of the Audit Committee, the Board proposes that PwC be reappointed as auditor of the Company. Resolution 14 proposes that the auditor's remuneration be determined by the Audit Committee.

### 15 NEXT Long Term Incentive Plan

Authority is being sought to amend the NEXT Long Term Incentive Plan (LTIP) rules to reflect an increase in the maximum opportunity to be awarded to participants under the LTIP from 200% to 225%. This change is being introduced as part of the revised Directors' Remuneration Policy and further details are set out on page 98.

### 16-18 Extension of Management Share Option Plan, Share Matching Plan and Sharesave Plan

Resolutions 16, 17 and 18 seek authority from shareholders to continue to operate the MSOP, SMP and Sharesave for a period of ten years from the 2020 AGM. Each plan is a revised and updated version of the previous plan that has been operated by the Company for employees for many years. In particular, each plan has been adapted so that it may operate over new issue shares, treasury shares or shares purchased in the market.

A summary of the principal terms of each share plan is set out in Appendices 2, 3 and 4 to this Notice.

# NOTICE OF MEETING

## 19 Renewal of the powers of directors to allot shares

This ordinary resolution 19(a)(i) seeks authority to allow the directors to allot ordinary shares up to a maximum nominal amount of £4,400,000, representing approximately one third of the Company's existing issued share capital, excluding treasury shares, as at 18 March 2020. In accordance with institutional guidelines, resolution 19(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 £8,800,000, representing approximately two thirds of the Company's existing issued share capital, excluding treasury shares, as at that date. As at 18 March 2020 (being the latest practicable date prior to publication of this document) the Company's issued share capital amounted to £13,294,928 comprising 132,949,276 ordinary shares of 10 pence each. No shares were 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 2021 or, if earlier, 14 August 2021.

## 20 and 21 Authority to disapply pre-emption rights

In special resolution 20 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 £664,000, representing 5% of the issued ordinary share capital of the Company as at 18 March 2020. This authority also allows the directors, with-in the same aggregate limit, to sell for cash, shares that may be held by the Company in treasury.

Special resolution 21 seeks separate and additional authority to allot up to an additional 5% of the issued ordinary share capital of the Company on a non pre-emptive 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 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 2021 or, if earlier, 14 August 2021.

## 22 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 18 March 2020, NEXT has returned over £4.4bn to shareholders by way of share buy-backs and over £3.8bn in dividends, of which £0.9bn 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 £680m in capital expenditure to support and grow the business.

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 outstanding employee share options and share awards are generally satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 25 to the financial statements).

The renewed authority will expire at the AGM in 2021 or, if earlier, 14 August 2021.

## 23 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 2019 AGM up to 18 March 2020.
- 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 17, passed at the Company's 2019 AGM, granted authority to the Company to make on-market purchases of a maximum number of 20,637,000 shares and expires on the earlier of the date of the 2020 AGM or 16 August 2020. 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 2020 AGM or 16 August 2020. Pursuant to those authorities and up to 18 March 2020, the Company has bought back 3,377,293 shares for cancellation, representing 2.5% of its issued share capital as at the date of the 2019 AGM, at a total cost of £197m. 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. 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"). In the absence of a Programme Agreement (as defined below), these 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 23, 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 2021 and 14 August 2021 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 2.3% of its issued share capital at 18 March 2020;
- 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 14 May 2020 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 2021 AGM or on 14 August 2021, whichever is the earlier, unless such authority is renewed prior to that time (except in relation to the purchase of shares under any CFT 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).

# NOTICE OF MEETING

A copy of each of the Programme Agreements will be available at the AGM on 14 May 2020. Copies will also be available for inspection at the Company's registered office at Desford Road, Enderby, Leicester LE19 4AT and at the offices of Slaughter and May at One Bunhill Row, London, EC1Y 8YY 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 generally be satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 25 to the financial statements).

The Programme Agreements will have a duration of the shorter of the period to the date of the next AGM to be held in 2021 and 14 August 2021 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.

## 24 Increasing the Company's borrowing powers

Special resolution 24 proposes a change to the Company's articles of association in order to provide additional borrowing headroom, in particular during the coronavirus outbreak. The current Article 67 (borrowing powers) of the articles will be amended by increasing the numerical limit set at article 67(a) from £2bn to £2.5bn.

This will increase the directors' powers to incur borrowings of the Company from the higher of £2bn or an amount equal to two times adjusted total equity to the higher of £2.5bn or an amount equal to two times adjusted total equity (as defined in the articles) of the Company. For the purpose of this limit borrowings do not include operating leases.

## 25 Articles of association

Special resolution 25 proposes that the Company adopts new articles of association, the principal changes of which are set out below. The new articles showing all the proposed changes to the Company's existing articles are available for inspection, as noted on page 215 of this document.

(i) Untraced shareholders

By deleting the current articles 111, 125 and 126 and replacing them with the new articles 112, 126 and 127, the Company will have more flexibility in the methods it uses when tracing members, and in dealing with the proceeds of share forfeiture.

The proposed replacements for article 125 and 126 will amend the provisions of the existing articles of association relating to members who are considered untraced after a period of 12 years. The new articles replace the requirement to place notices in newspapers with a requirement for us to take reasonable steps to trace the member and let them know that we intend to sell their shares. This can include engaging an asset reunification company or other tracing agent to search for members who have not kept their details up to date, or taking any other steps we consider appropriate. Members whose shares are sold following this process will not be able to claim the proceeds of sale and the Company can use these funds as the Board thinks fit.

(ii) Unclaimed dividends

The proposed replacement for article 111 contains changes related to (i) untraced shareholders in respect of unclaimed dividends or other money payable on the shares of untraced members which are sold.

(iii) Hybrid meetings

The Company's articles of association will be amended by deleting the current articles 26 and 27 and replacing them with the new articles 26 and 27 in order to allow participation in general meetings by electronic means, whilst retaining the need for a quorum to be present in person. Consequential amendments are also proposed to current articles 32, 34, 37 and 38.

It is the Board's belief that meetings offering shareholders a choice to participate either in person or electronically offer a positive solution both for those shareholders who are unable to attend in person and for the Company, allowing meetings to be conducted in times where physical participation may be prevented or restricted.

Nothing in the proposed articles authorises or allows a general meeting of the Company to be held exclusively on an electronic basis.

(iv) Postponement of AGM

The Company's articles of association will be amended by the insertion of new article 37 in order to allow the Board to postpone or move a general meeting to another date, time or place, to change the electronic facility, or do any of these things.

In such an instance, notice of the date, time and place of the rearranged meeting (or places in the case of a satellite meeting) would, if practicable, also be placed on the Company's website and notified by way of an announcement to a Regulatory Information Service.

## 26 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 26 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 2020 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 as the directors intend to do in respect of their own beneficial shareholdings.

# APPENDIX 2

## Summary of the principal terms of the Next Share Matching Plan (the "SMP")

### Operation

The Company's Remuneration Committee will supervise the operation of the SMP.

### Eligibility

Any employee (excluding an executive director) of the Company and its subsidiaries may participate at the discretion of the Remuneration Committee.

### Grant of awards

Awards to acquire ordinary shares in the Company may be granted within 6 weeks of: (i) shareholder approval of the SMP; (ii) the Company's announcement of its results for any period; or (iii) at any other time when the Remuneration Committee considers there are exceptional circumstances.

No awards may be granted under the SMP more than 10 years after the date that the Company's shareholders have most recently approved the SMP.

Awards may be granted as conditional awards to acquire shares, as nil (or nominal) cost options, normally exercisable between 3 and 10 years following grant, or as forfeitable shares. They may also be cash-based awards of an equivalent value.

Awards will be made to individuals who invest part, or all, of the cash element of their discretionary annual bonus in ordinary shares in Next plc (**"Investment Shares"**). No other payment is required for an award.

After Investment Shares have been purchased, the Company will grant awards over shares with a value of up to 200% of the pre-tax amount used to buy Investment Shares. An award of up to 300% of that amount may be made if considered appropriate but only following consultation with major shareholders.

Awards are not transferable (except on death) and are not pensionable.

### Performance condition

Vesting of awards will be subject to a performance condition set by the Remuneration Committee.

The Remuneration Committee may vary an existing award's performance condition if an event occurs which causes the Remuneration Committee to consider a variation to be appropriate. The varied condition must be fair and reasonable and not materially less challenging than the original condition (but for the relevant event).

### Vesting of awards

Awards normally vest 3 years after grant to the extent that the performance condition has been satisfied, provided the Investment Shares have been retained by the participant and they are still employed in the Next group. If any Investment Shares are disposed of by the participant before the vesting date, awards will lapse on a pro-rata basis. Once vested, awards granted as options will normally remain exercisable until the day before the 10th anniversary of their grant.

### Leaving employment

Awards will vest following cessation of employment due to death or in other circumstances at the discretion of the Remuneration Committee. The extent of vesting will depend on: (i) the extent to which the performance condition has been satisfied; and (ii) pro-rating to reflect the reduced period from grant to vesting, (although the Remuneration Committee need not pro-rate if it regards this as inappropriate). Employees who resign will generally lose their rights to an award.

Vesting in these circumstances will generally occur at the normal time. However, the Remuneration Committee can decide that awards will vest immediately on such cessation (in which case performance will be measured over the period to cessation).

Where an award granted as an option is exercisable following cessation of employment, it will normally be exercisable for 12 months from when it vests.

### Corporate events

On a takeover (not being an internal reorganisation), or winding up of the Company awards will vest early subject to: (i) the extent that the performance condition has been satisfied; and (ii) pro-rating to reflect the reduced period from grant to vesting (although the Remuneration Committee can decide not to pro-rate award if it regards this as inappropriate).

On an internal reorganisation, awards will be replaced by equivalent awards over shares in the new holding company unless the Remuneration Committee decides that they should vest (on the same basis as for a takeover).

If a demerger, special dividend or other similar event is proposed which, in the Remuneration Committee's opinion, would affect the market price of shares to a material extent, the Remuneration Committee may decide that awards will vest (as on a takeover).

### Participants' rights

Holders of awards of forfeitable shares will have shareholder rights from when they are made except they may be required to waive their dividend rights.

Other awards will not confer shareholder rights until participants have received their shares. The Remuneration Committee may, however, decide that participants will receive a payment (in cash and/or shares) of an amount equivalent to the dividends that would have been paid on the shares subject to the awards from when they were granted to when shares are acquired. Alternatively, the awards may be increased as if dividends were paid on the shares subject to the awards and then reinvested in further shares.

### Rights attaching to shares

Any shares allotted under the SMP will rank equally with other issued shares (except where record date is prior to their allotment).

### Adjustment of awards

On a variation of the Company's share capital or on a demerger, payment of a special dividend or similar event which materially affects the market price of shares, the Remuneration Committee may adjust the number of shares subject to an award and/or any exercise price payable.

# NOTICE OF MEETING

### Overall plan limits

The SMP may operate over new issue shares, treasury shares or shares purchased in the market.

In any ten calendar years, the Company may not issue (or grant rights to issue) more than:

(a) 10 per cent of its issued ordinary share capital under the SMP and any other employee share plan; and

(b) 5 per cent of its issued ordinary share capital under the SMP and any other executive share plan.

Treasury shares will count as new issue shares for these purposes unless institutional investors decide that they need not count.

### Alterations to the SMP

The Remuneration Committee may amend the SMP, although prior shareholder approval is normally required for amendments to the advantage of participants to the rules governing eligibility, limits on participation, the overall limits on the issue of shares or the transfer of treasury shares, the basis for determining a participant's entitlement to, and the terms of, the shares or cash to be acquired and the adjustment of awards.

Such approval is not, however required for minor alterations to benefit administration of the SMP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group and any performance condition.

### Overseas sub-plans

The shareholders' resolution to approve the SMP will allow the Board to establish further plans for overseas territories. Such plans will be similar to the SMP, but modified to take account of local tax, exchange control or securities laws. Any shares made available under such sub-plans will count against the limits on individual and overall participation in the SMP.

# APPENDIX 3

## Principal terms of the Next Sharesave Plan (the "Sharesave")

Under the Sharesave, employees of the Company may be granted options to acquire shares in the Company (**"Shares"**). To take part in the Sharesave employees must save a certain amount each month which will be used to purchase the Shares subject to the option.

### Operation

The operation of the Sharesave will be supervised by the Board and is designed to qualify for tax-advantaged status under Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003 (**"Schedule 3"**).

### Eligibility

UK tax resident employees and full-time directors of the Company and any designated participating subsidiary can participate. The Board may require completion of a qualifying period of employment of up to five years and may also allow other employees to participate.

### Grant of options

Participating employees enter into HMRC approved savings contracts, with monthly savings normally made over three or five years. The price payable for the shares subject to each option will correspond to the maturity proceeds of the related savings contract.

No options may be granted under the Sharesave more than 10 years after the date that the Company's shareholders have most recently approved the Sharesave.

Options are not transferable, except on death, and are not pensionable.

### Individual participation

An employee's monthly savings under all savings contracts linked to options granted under any HM Revenue & Customs approved savings arrangement may not exceed the statutory maximum (currently £500).

### Option price

The price per share payable to exercise of an option will not be less than the higher of:

(i) 80% of the middle-market quotation of a share on the London Stock Exchange up to 42 days before the grant of the option; and

(ii) if the option relates only to new issue shares, the nominal value of a share.

The dealing day(s) by reference to which this price is determined must fall within six weeks of the announcement by the Company of its results for any period (except in exceptional circumstances).

### Exercise of options

Options will normally be exercisable for six months from the third or fifth anniversary of the start of the related savings contracts. Earlier exercise is permitted:

- after ceasing employment by reason of death, injury, disability, redundancy, retirement, a TUPE transfer, or the employing business or company ceasing to be part of the Company's group, options will lapse on cessation of employment or directorship with the Next group;
- where employment ceases more than three years from grant for any reason other than for misconduct; and
- in the event of a takeover, amalgamation, reconstruction or voluntary winding-up of the Company, except on an internal corporate re-organisation when the Board may decide to exchange existing options for equivalent new options over shares in a new holding company.

Shares will be allotted within or transferred to the participant within 30 days of exercise of an option.

### Overall plan limits

The Sharesave may operate over new issue shares, treasury shares or shares purchased in the market.

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent of its issued ordinary share capital under the Sharesave and any other employee share plan adopted by the Company.

Treasury shares will count as new issue shares for the purposes of this limit (unless institutional investor advisor bodies decide that they need not count).

## Variation of capital

On a variation in the Company's share capital the number of shares under option and the option price may be adjusted.

## Rights attaching to shares

Any shares allotted under the Sharesave will rank equally with shares then in issue (except for rights arising by reference to a record date prior to their allotment).

## Alterations to the Sharesave

The Board may alter the Sharesave, provided the prior approval of shareholders is obtained for amendments to the advantage of participants where these relate to eligibility, limits on participation and the issue of shares or the transfer of treasury shares, the basis for determining a participant's entitlement to, and the terms of, the shares to be acquired and the adjustment of options.

The requirement to obtain the prior approval of shareholders will not, however, apply to minor alterations to benefit administration of the Sharesave, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or any company in the Company's group.

## Overseas plans

The shareholder resolution to approve the Sharesave will allow the Board, without further shareholder approval, to establish or extend further plans for overseas territories (in particular the 2009 Sharesave Plan (Republic of Ireland) which is in all material respects identical to the main UK plan, any such plan to be similar to the Sharesave, but modified to take account of local tax, exchange control or securities laws, provided that any shares made available under such further plans are treated as counting against the limits on individual and overall participation in the Sharesave.

# APPENDIX 4

## Summary of the Next Management Share Option Plan ("MSOP")

The MSOP is split into two parts which means that an option may either:

(i) qualify for tax-advantaged status under Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003 (a **"CSOP option"**); or

(ii) be unapproved (which do not benefit from tax advantaged treatment).

## Eligibility

Employees (excluding directors of the Company and senior executives who participate in the Next Long Term Incentive Plan) will be eligible to participate at the discretion of the Remuneration Committee.

A CSOP option may not be granted to an individual who is a director of the Company or of any of its subsidiaries and who works for less than 25 hours per week.

## Grant of options

Options may normally be granted within the 6 weeks of: (i) shareholder approval of the MSOP; (ii) the Company's announcement of its results for any period; or (iii) at any other time when the Remuneration Committee considers there are exceptional circumstances.

No options may be granted under the MSOP more than 10 years after the date that the Company's shareholders have most recently approved the MSOP.

No payment will be required for the grant of an option.

## Acquisition price

The Remuneration Committee shall decide before an option is granted the price at which shares may be acquired by the exercise of that option, but the price shall not be less than the middle-market quotation for an ordinary share of the Company as quoted on the London Stock Exchange on the dealing day immediately preceding the grant of the option.

## Individual limits

The maximum total market value of shares (i.e. the acquisition price of shares) over which any options (including CSOP and unapproved) may be granted to any person during any financial year of the Company is 3 times salary, excluding bonuses and benefits in kind. This limit may be increased to 5 times salary in circumstances considered by the Remuneration Committee to be exceptional, for example, on the grant of options following recruitment.

In addition, no individual may hold CSOP options with an aggregate exercise price of more than £30,000 (or such amount specified by HMRC).

## Overall plan limits

The MSOP may operate over new issue shares, treasury shares or shares purchased in the market.

In any ten calendar years, the Company may not issue (or grant rights to issue) more than:

(a) 10 per cent of its issued ordinary share capital under the MSOP and any other employee share plan; and

(b) 5 per cent of its issued ordinary share capital under the MSOP and any other executive share plan.

Treasury shares will count as new issue shares for these purposes unless institutional investors decide that they need not count.

## Exercise of options – performance conditions

The exercise of an option may be conditional upon the satisfaction of a performance condition set by the Remuneration Committee. An option will normally be exercisable between 3 and 10 years following its grant provided the relevant performance condition is satisfied.

An unvested option may normally be exercised to the extent that the performance condition is satisfied, following cessation of employment due to redundancy, retirement, death or disability, TUPE transfer, if the Company sells the business or subsidiary by which he is employed or at the discretion of the Remuneration Committee. The maximum period allowed for exercise after cessation of employment is generally 6 months (12 months in the case of death).

However, if an option holder ceases employment less than 12 months after the grant of an unapproved option, it will immediately lapse, unless otherwise determined by the Committee at its discretion.

Options may also be exercised, to the extent that any performance condition is satisfied, on a change of control, takeover, compulsory acquisition, scheme of arrangement, winding up or demerger.

# NOTICE OF MEETING

### Adjustment of options

In the event of any variation of the share capital of the Company or on the occurrence of any other event similarly affecting the Company's share price, the Remuneration Committee may generally adjust the number of shares subject to options and the price payable on their exercise.

### Alterations

The Remuneration Committee may alter the Plan or the terms of any option. However, the prior approval of shareholders must be obtained for alterations made to the advantage of participants in respect of provisions relating to eligibility, individual and overall limits, the basis for determining a participant's entitlement to, and the terms of, shares provided under the Plan, the adjustment of options for variations in capital and the alteration of the Plan.

The requirement to obtain prior approval of shareholders will not apply to a minor alteration to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

An alteration to any performance condition may also be made by the Remuneration Committee without shareholder approval so long as an event has occurred which causes the Remuneration Committee to consider that the condition would not, without alteration, achieve its original purpose and the altered condition will be not materially less difficult to satisfy than the unaltered condition would have been.

# MEETING FORMALITIES AND VOTING

## Voting at the Annual General Meeting

To be entitled to 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 12 May 2020 or, if the meeting is adjourned, at 6.30 pm on the day which is two working days before the adjourned meeting. As stated on page 204, in view of the ongoing Coronavirus pandemic, NEXT encourages shareholders to appoint the Chairman of the AGM as their proxy (either electronically or by post) to vote in accordance with their instructions given the current restrictions on attendance.

In line with best practice, voting on all resolutions at the 2020 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 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 23 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 23 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.

The total number of the Company's issued share capital on 18 March 2020, which is the latest practicable date before the publication of this Notice, is 132,949,276 ordinary shares. All of the ordinary shares carry one vote each and there are no shares held in treasury.

### Voting and proxies

Please complete and return the form of proxy to Equiniti, to arrive not later than 9.30 am on 12 May 2020 (or 48 hours before any adjourned meeting).

A shareholder who is entitled to vote at the AGM may appoint one or more proxies to 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 of the Meeting, should ensure that the proxy 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 9.30am on 12 May 2020.

## 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 14 May 2020 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

Please see page 204 for details of how to submit questions electronically. The Company will 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.

## Data protection statement

Your personal data includes all data the Company holds which relates to you as a Shareholder, including your name and contact details, the votes you cast and your Shareholder Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's registrar) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the Shareholder rights you exercise. A copy of the Company's privacy policy can be found at www.nextplc.co.uk/site-services/privacy-and-cookies.

## 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 and each non-executive director's letter of appointment
- Copies of the rules of the NEXT Long Term Incentive Plan, the Next Management Share Option Plan, the Next Share Matching Plan and the Next Sharesave Plan pursuant to resolutions 15, 16, 17 and 18
- The Programme Agreements pursuant to resolution 23
- Articles that reflect the changes proposed in resolution 25

Copies will also be available for inspection at the offices of Slaughter and May at One Bunhill Row, London, EC1Y 8YY during usual business hours until the close of the AGM. A copy of the proposed articles will be made available on the Company's website and copies of the other documents will be made available on request.

## 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 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

## Annual General Meeting

The AGM will be held at 9.30 am on Thursday 14 May 2020 at the registered office of Next plc, Desford Road, Enderby, Leicester LE19 4AT. The Notice of the Meeting on pages 204 to 215 sets out business to be transacted. Full access is available to the venue for those with special requirements.

## 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;
- 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 59 to 64; 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.

revive™ Silk

100% recycled

When you have finished with this leaflet please recycle it

Printed using vegetable oil based inks by Pureprint Group, a CarbonNeutral® Company with FSC® certification.
Pureprint is a CarbonNeutral Company and FSC certified.

This document is printed on Revive Silk 100 paper, manufactured from FSC® Recycled certified fibre derived from 100% pre and post-consumer waste and Carbon Balanced with World Land Trust.

www.carbonbalancedpaper.com
CBP00019082504183028

The paper is Carbon Balanced with World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land.

Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere, referred to as REDD (Reduced Emissions from Deforestation and forest Degradation). This is now recognised as one of the most cost-effective and swiftest ways to arrest the rise in atmospheric $CO_2$ and global warming effects. Additional to the carbon benefits is the flora and fauna this land preserves, including a number of species identified at risk of extinction on the IUCN Red List of Threatened Species.

Produced by **Radley Yeldar** www.ry.com

next.co.uk | nextplc.co.uk