next

ANNUAL REPORT AND ACCOUNTS

JANUARY 2018

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

NEXT distributes through three main channels:

- NEXT Retail, a chain of around 530 stores in the UK and Eire
- NEXT Online, our home shopping division with over 4.9 million active customers in the UK and overseas
- NEXT International Retail, with around 200 mainly franchised stores

Contents

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

Investor website

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

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

This symbol signposts the reader to other sections within this report

This document contains Forward Looking Statements – see page 161.

HIGHLIGHTS

- Total sales marginally down -0.5% to £4.1bn.
- Profit before tax down -8.1% to £726m.
- Earnings Per Share down -5.6% to 416.7p.
- £480m paid to shareholders in dividends through a combination of ordinary dividends £224m and special dividends £256m. A further £106m was returned through share buybacks.
- Final ordinary dividend of 105p, making 158p for the year, flat on last year. Covered 2.6 times by Earnings Per Share.
- Strategy continues to be focused on products, profitability and returning cash to shareholders through dividends and share buybacks.

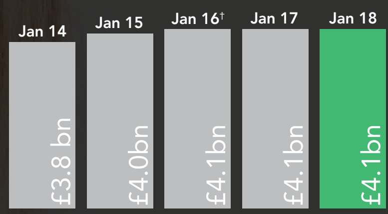
Read more in the Chief Executive's Review on pages 4 to 37

See our Group financial statements on pages 102 to 143

FINANCIAL HIGHLIGHTS

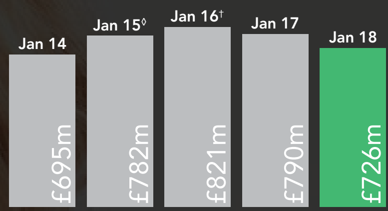
TOTAL SALES* -0.5%

Underlying continuing business



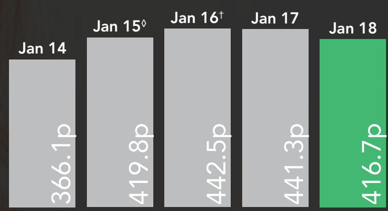
PROFIT BEFORE TAX -8.1%

Underlying continuing business



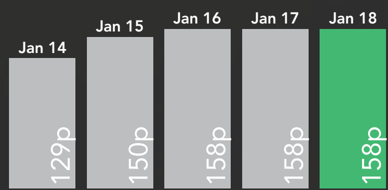
EARNINGS PER SHARE -5.6%

Underlying



DIVIDENDS PER SHARE no change

Excluding special dividends



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

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

◊ Underlying results for 2015 are shown pre-exceptional items.

STRATEGIC REPORT

Strategic Report
Chairman's Statement

I joined the Board of NEXT just over a year ago and became Chairman in August 2017. I am enjoying working with the Board and have been impressed by the passion and commitment shown by the Executive Board and all the employees of NEXT.

As anticipated, the year to January 2018 was challenging for NEXT and, in line with our January 2018 guidance, Earnings Per Share declined by -5.6% to 416.7p. We are proposing a final ordinary dividend of 105p taking the total ordinary dividend to 158p, flat on last year.

NEXT Retail full price[1] sales declined by -7.0% and Online[2] full price sales increased by +11.2%. Total[3] Group sales of £4.1bn were marginally down on last year by -0.5%.

Despite difficult trading conditions, cash flow remained strong and we returned £586m to shareholders through a combination of ordinary dividends (£224m), special dividends (£256m) and share buybacks (£106m). During the year we purchased 2.2m shares at an average price of £48.81 and reduced our shares in issue by 1.5%.

We have continued to invest in the business, spending £104m on new stores, warehousing and systems. Net debt increased to £1,002m from £861m driven mainly by the sales growth in next**pay**, our online credit business. Net debt remains well within our bond and bank facilities of £1.4bn.

Michael Law, our Group Operations Director who has been with NEXT for 23 years, retires from the Board at the AGM in May. Michael has made a huge contribution to the Group, in particular leading the transformation of our Warehousing, Logistics and Systems operations. On behalf of the Board, I would like to thank Michael for his outstanding service. I am delighted to announce Richard Papp, our Group Merchandise Director with 25 years' service at NEXT, will succeed Michael on the Board as Group Merchandise and Operations Director.

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

Even though the wider economy, clothing market and High Street look set to remain challenging, at our central guidance for the year ahead, Earnings Per Share will modestly move forward. The Board continues to be focused on building shareholder value through the delivery of long term sustainable growth in Earnings Per Share. Our core strategy remains unchanged, focused on our products, our profitability and returning surplus cash to our shareholders.

M. J. Roney

Michael Roney
Chairman

1. Full price sales are total sales, excluding items sold in our mid-season or end-of-season Sale events and our Clearance operations. They include interest income relating to those sales.
2. Formerly known as NEXT Directory.
3. Total sales are VAT exclusive sales including the full value of commission based sales and interest income (refer to Note 1 of the financial statements).

Read more in the Chief Executive's Review on pages 4 to 37

Read about our Governance on pages 62 to 65

Strategic Report
Chief Executive's Review

Introduction

In many ways 2017 was the most challenging year we have faced for twenty-five years. A difficult clothing market coincided with self-inflicted product ranging errors and omissions. At the same time, the business has had to manage the costs, systems requirements and opportunities of an accelerating structural shift in spending from retail stores to online. In the end our profits were in line with the forecast we issued in January 2017 and the Company goes into the coming year in good financial health.

Whilst it has been an uncomfortable year it has also prompted us to take a fresh look at almost everything we do: from 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 and buying methods, stock management and, most importantly, our online systems, marketing and fulfilment platform. As a result of these endeavours, many challenges and opportunities have emerged.

Structure of this review

We have structured this review to give readers: (1) a clear and detailed picture of the financial performance of the Company, (2) an analysis of the cyclical and structural changes affecting the business and our plans to respond to these challenges and (3) our guidance for the year ahead. An overview of each of these sections is set out in the table below.

Section			**Description**
Part 1	Review of Financial Performance	page 5	This section gives a detailed description of the Group's financial performance by business division (Retail, Online and other activities). It also gives the structure of the Group's Balance Sheet, financing and cash flows.
Part 2	Strategic Response to a Changing Market	page 20	This section describes the **structural** and **cyclical** changes affecting our industry and our thoughts as to how these trends will develop in the year ahead. This section also gives a flavour of some of our plans to address the challenges and **harness the opportunities** of the current environment.
Part 3	Sales and Profit Guidance for the Year Ahead	page 37	This section gives our guidance for full price **sales, profits** and **Earnings Per Share** for the year ahead.

Part 1 – Review of Financial Performance
Financial performance – key numbers

NEXT Brand full price sales for the year were up **+0.7%** and total sales (including markdown) were down **-0.6%** on last year. In line with the guidance we gave in our Christmas trading statement, Group profit before tax was down **-8.1%** and Earnings Per Share (EPS) were down **-5.6%**.

During the year we have changed the cost allocation between our Retail and Online businesses. The aim is to reflect more accurately the costs of fulfilling Online orders through our shops. Prior year operating profit for Retail and Online has been restated throughout this report for comparison; there is no change to total Group operating profit, refer to page 6.

We are proposing an ordinary dividend of 105p per share, making **158p** in total for the year, which is in line with last year and covered 2.6 times by EPS.

Total sales excluding VAT	**Jan 2018 £m**	Jan 2017 £m	
NEXT Retail	**2,123.0**	2,304.6	-7.9%
NEXT Online	**1,887.4**	1,728.5	+9.2%
NEXT Brand	**4,010.4**	4,033.1	**-0.6%**
Other	**107.1**	103.7	
Total NEXT Group sales	**4,117.5**	4,136.8	-0.5%
Statutory revenue	**4,055.5**	4,097.3	

Profit and EPS	**Jan 2018 £m**	Jan 2017 Restated £m	
NEXT Retail	**268.7**	353.3	-24.0%
NEXT Online	**461.2**	429.5	+7.4%
NEXT Brand	**729.9**	782.8	-6.8%
Other	**30.0**	44.9	
Operating profit	**759.9**	827.7	-8.2%
Net interest	**(33.8)**	(37.5)	
Profit before tax	**726.1**	**790.2**	**-8.1%**
Taxation	**(134.3)**	(154.9)	
Profit after tax	**591.8**	635.3	
EPS	**416.7p**	**441.3p**	**-5.6%**
Ordinary dividends per share	**158.0p**	158.0p	0.0%

Strategic Report

Note on cost allocation

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

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

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

NEXT, Gateshead Metrocentre

NEXT Retail

Retail sales and profit analysis

Total Retail sales reduced by -7.9% and full price sales were down -7.0%. Net new space contributed +2.0% to total sales growth. As expected, our Retail business has had a particularly difficult year and profits fell -24.0%, as shown in the table below.

£m	Jan 2018	Jan 2017[4]	
Retail total sales	**2,123.0**	2,304.6	-7.9%
Retail operating profit	**268.7**	353.3	-24.0%
Retail net margin	**12.7%**	15.3%	

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

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

Based on our central guidance for the year ahead we expect Retail margins in 2018/19 to reduce from 12.7% to around 10%, mainly as a result of lower like-for-like[5] sales.

4. 2016/17 net operating profit and margin has been restated, refer to page 6.
5. Change in sales from stores which have been open for at least one year.

Strategic Report

Retail space expansion

Net trading space increased by 51,000 square feet this year, taking our portfolio to 8.0m square feet. In September 2017 we forecast our trading space to increase by 85,000 square feet. However, this estimate included two large stores that were planned to open in 2017 which are now expected to open in 2018.

The table below sets out the change in store numbers and space for the full year.

	Store numbers	Sq. ft. ('000)	
January 2017	**538**	**7,978**	
New stores	+7	+70	
Extensions (4), re-sites (11)	–	+143	
Closed (14), re-sites (3)	-17	-162	
January 2018	**528**	**8,029**	**+0.6%**

The profitability[6] of the portfolio of stores opened or extended in the last 12 months is forecast to be 21% of VAT inclusive sales and payback on the net capital invested is expected to be 24.8 months. The forecast performance of the portfolio of stores opened during the year is set out in the table below.

Performance of new store portfolio	
Sales versus target	-1.5%
Profitability of new store portfolio	21%
Payback on net capital invested	24.8 months

The new store portfolio marginally missed its sales target, largely because many of the targets were set some time ago at the point we negotiated terms for these properties; a time when prospects for retail stores were more benign. Payback is forecast to be slightly higher than our 24 month goal.

Of the 17 store closures, three were as a result of consolidating two stores into one location. As set out in the table below, the remaining 14 stores made an average 12% profit (before central overheads). Excluding the one store which was subject to a compulsory purchase, the average profitability of the stores was 9%. We would not necessarily actively seek to close stores making a 9% margin however we would rarely agree to a new lease at these levels of profit.

Reason for closure	No. of stores	Profit £m	Profit %
Compulsory purchase	1	0.8	24%
Lease end	11	1.7	10%
Sublet	2	0.2	8%
Total	**14**	**2.7**	**12%**

During 2018, we expect to increase net trading space by around 100,000 square feet; this estimate is based on planned closures and on lease terms currently contracted or under offer.

6. Store profit refers to net branch contribution. Net branch contribution is defined as profit before central overheads and is expressed as a percentage of VAT inclusive sales.

Next Online

Online sales performance

Total Online sales grew by +9.2%, with full price sales growth of +11.2%. The table below shows the growth in full price sales for each element of the Online business. Full price sales in the UK grew by +8.6% and our Overseas business grew by +25.5%. The two columns on the right show Online performance split between the first and second half of the year, highlighting the significant improvement in UK NEXT Brand sales in the second half. Overseas sales, on a constant currency basis, grew by +13% in the first half and +8% in the second half.

Full price sales growth	£m	% var	H1	H2
NEXT Brand UK	+16	+1.6%	-4.1%	+6.9%
LABEL UK	+92	+42.7%	+40.6%	+44.8%
Total UK	**+108**	**+8.6%**	**+3.1%**	**+13.6%**
Overseas	+59	+25.5%	+30.7%	+20.8%
Total	**+167**	**+11.2%**	**+7.4%**	**+14.7%**

Online customer base

Average active customers[7] increased by +4% to 4.9 million, driven by the growth in overseas and UK "cash" customers (those who do not use our credit account, next**pay**, when ordering). The table below sets out the growth in the respective parts of our customer base.

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

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

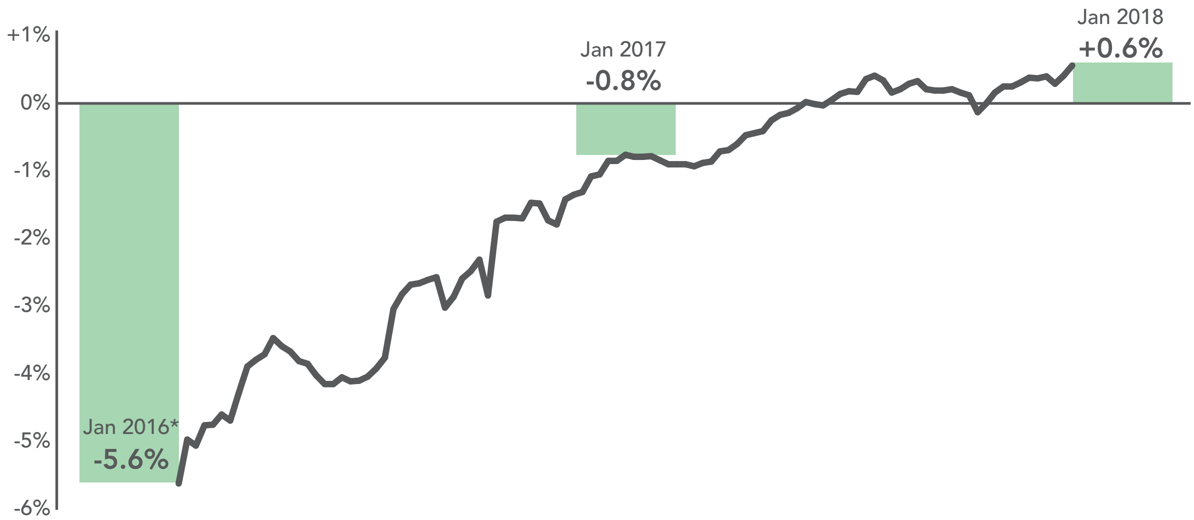
Strategic Report

Increasing stability of our credit customer base

The chart below shows that, two years ago, our credit customer base was in decline. We closed the year ending January 2016 with credit customers down -5.6%. Since then, we have re-launched our credit account as next**pay** and actively promoted it to our "cash" customers. As at January 2018, credit customers were up +0.6% on the prior year.

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

Annual Change in UK Active Credit Customers



* Prior year active customers have been restated as reflected last year

The table below shows the relationship between the number of active credit customers and credit sales. As can be seen, the increase in credit sales has been entirely driven by an increase in sales per customer. We believe this has been driven by a combination of the re-launch of next**pay**, the introduction of NEXT Unlimited and investment in the functionality of our website.

	Jan 2018	Jan 2017	
Average active credit customers	**2.49m**	2.50m	-0%
Online credit sales (VAT ex.) per active customer	**£454**	£419	+8%
Average balance per customer	**£441**	£414	+7%

Online profit analysis

Total Online sales grew by +9.2% and profit grew by +7.4%, as shown in the table below.

£m	Jan 2018	Jan 2017[8]	
Online total sales	**1,887.4**	1,728.5	+9.2%
Online operating profit	**461.2**	429.5	+7.4%
Online net margin	**24.4%**	24.8%	

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

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

Based on our central guidance for the year ahead, we expect Online margins in 2018/19 to increase from 24.4% to around 25%, mainly as a result of our fixed cost base not growing in line with sales.

8. 2016/17 net operating profit and margin has been restated, refer to page 6.

Strategic Report

Online Overseas

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

Overseas sales are achieved through our own website nextdirect.com and via third-party websites. Growth by each channel is set out in the table below.

Total sales £m	Jan 2018	Jan 2017	
Nextdirect.com	**265**	211	+25%
Third-party sites	**30**	23	+35%
Total Overseas sales	**295**	234	+26%

The functionality of our overseas website has not yet benefited from many of the improvements we have made to the UK site. We intend to roll out many of the successful changes that have been deployed in the UK. These improvements include: better mobile functionality, retaining and promoting abandoned baskets, improved registration/checkout and intelligent recommendations.

In the year ahead, we expect full price sales on a constant currency basis to be up +8%, and in Pounds Sterling up +10%.

Sales and profit

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

£m	Jan 2015	Jan 2016	Jan 2017	Jan 2018	*Jan 2019 (e)*
Total sales	163	197	234	**295**	*325*
Operating profit[9]	30	31	46	**65**	*71*
Net margin	18%	16%	20%	**22%**	*22%*

9. Operating profit for 2017/18 and 2018/19 now includes an allocation of central overheads and markdown costs. This cost allocation reduces overseas profitability by 3%.

LABEL

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

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

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

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

During the year and looking ahead, we have been working closely with our brand partners to simplify the process of working with LABEL. We are developing our stock systems to enable brand partners to directly manage their stock into our warehouse and onto our website.

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

Sales and profit

The table below sets out the last four years' sales, profits[10] and net margins for LABEL, along with our estimate for the year ahead.

£m	Jan 2015	Jan 2016	Jan 2017	Jan 2018	*Jan 2019 (e)*
Total sales	145	180	206	**290**	*375*
Operating profit	20	22	34	**50**	*64*
Net margin	14%	12%	16%	**17%**	*17%*

In the year ahead, we expect full price sales to be up +30% and net margin to remain in line with the previous year at 17%. This forecast is flattered by the fact that it includes c.£10m of Lipsy & Co. full price sales, previously taken via the lipsy.co.uk website. Following the closure of the lipsy.co.uk website in February 2018, these orders and sales will be routed through next.co.uk and reported within LABEL.

10. Sales and profit referred to in this section exclude interest income on LABEL items purchased on a next**pay** account.

Strategic Report

Other business activity

NEXT Sourcing

NEXT Sourcing (NS) is our internal sourcing agent, which procures around 40% of NEXT branded product. In common with the wider manufacturing sector, NS experienced pressure on its margins during the year. NS sales were down -10% in US Dollars, mainly as a result of the reductions in the Dollar cost prices NEXT has negotiated across its supply base.

Falling sales and increased investment in product design meant net margin fell by -1.4% to 6.0%.

The profit impact in Pounds Sterling was partially mitigated by the stronger Dollar. The table below sets out the performance of the business in Sterling and in Dollars.

	Jan 2018 £m	Jan 2017 £m		**Jan 2018 USD m**	Jan 2017 USD m	
Sales (mainly inter-company)	**554.4**	605.2	-8%	**726.3**	811.0	-10%
Operating profit	**33.0**	44.7	-26%	**43.2**	59.9	-28%
Net margin	**6.0%**	7.4%		**6.0%**	7.4%	
Exchange rate	**1.31**	1.34				

We are anticipating that NS will have another challenging year in 2018/19. We expect NS to make around $40m profit, a decline of -7% on the year to January 2018. At our 2018/19 costing rate[11] this would equate to a profit of around £31m in Pounds Sterling, down -£2m on 2017/18.

Lipsy

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

Sales £m	**Jan 2018**	Jan 2017	
Wholesale	**8.5**	11.9	
Franchise	**4.2**	4.1	
Lipsy stand-alone retail stores	**1.1**	2.2	
Lipsy.co.uk	**10.4**	8.9	
Total Lipsy sales	**24.2**	27.1	-11%
Lipsy sales through NEXT Retail (reported in NEXT Retail)	**14.6**	16.5	-12%
Lipsy sales through NEXT Online (reported in NEXT Online)	**76.1**	47.0	+62%
Total sales	**114.9**	90.6	+27%

Lipsy has continued to reduce its UK wholesale business which is less profitable than (and competes with) its other sales channels. This has been more than offset by increased sales through NEXT Online.

Operating profit excluding acquisition costs was £12.3m which was up +39% on last year. Net operating profit including acquisition costs was £6.0m, up +9% on last year.

In the year ahead, we are forecasting net operating profit of around £11m; an increase of £5m. This estimated increase is due to a combination of sales growth (+24%) and cost savings associated with the closure of the lipsy.co.uk website.

11. Details of costing rates can be found on page 21.

International Retail and franchise stores

Our franchise partners currently operate 194 stores in 32 countries. During the year our partners opened eight new stores and sales have increased by +7.8%. Revenue and profit are set out below.

£m	Jan 2018	Jan 2017	
Franchise income[12]	**55.7**	51.6	
Own store sales	**11.5**	12.1	
Total revenue	**67.2**	63.7	+5%
Operating profit	**7.7**	9.3	-17%

Profit has reduced due to franchise partners lowering their local selling prices (which reduced the royalty we received) and the impairment of assets in six of our overseas stores.

Non-trading activities

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

£m	Jan 2018	Jan 2017
Central costs and employee share schemes	**(20.2)**	(22.5)
Property management	**3.6**	6.8
Unrealised foreign exchange	**(1.1)**	0.1
Associate	**1.0**	1.0
Total	**(16.7)**	(14.6)

The reduction in central costs reflects the release of a provision against a legal claim in the current year. The reduction in profit in property management is driven by an increase in our onerous lease provisions of £4m, mainly driven by two London stores.

Pension scheme

On the IFRS accounting basis, our defined benefit schemes have moved from £63m surplus at January 2017 to £106m surplus at January 2018. This is primarily due to the impact of returns on investments within the schemes.

A full actuarial valuation of our defined benefit pension scheme was undertaken as at 30 September 2016. The technical funding position was a surplus of £37m when rolled forward to 31 December 2017.

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

Strategic Report

Cost inflation and cost control

In the year to January 2018, cost increases of £44m have been largely offset with cost savings of £38m. The tables below outline the main contributors to cost increases and cost savings over the last year. Cost control remains at the heart of the business and we remain determined that cost savings must come through innovation and efficiency, rather than any compromise to our product quality or services.

The net increase in our costs was £8m higher than we anticipated at the half year. This is mainly due to the additional costs we incurred in our warehouses in the run up to Christmas as we began to run into capacity constraints. Operationally we were able to serve our customers, however the cost of providing our normal service was high.

Costs and savings for the year ending January 2018

Cost increases	**£m**
General wage inflation	12
Investment in online systems and marketing	11
Warehousing & distribution	8
Taxes (rates, Apprenticeship Levy, energy taxes)	4
National Living Wage	4
Onerous leases	4
Other increases	1
Total cost increases	**44**

Clearance costs	**£m**
Lower clearance rates of Sale stock	22

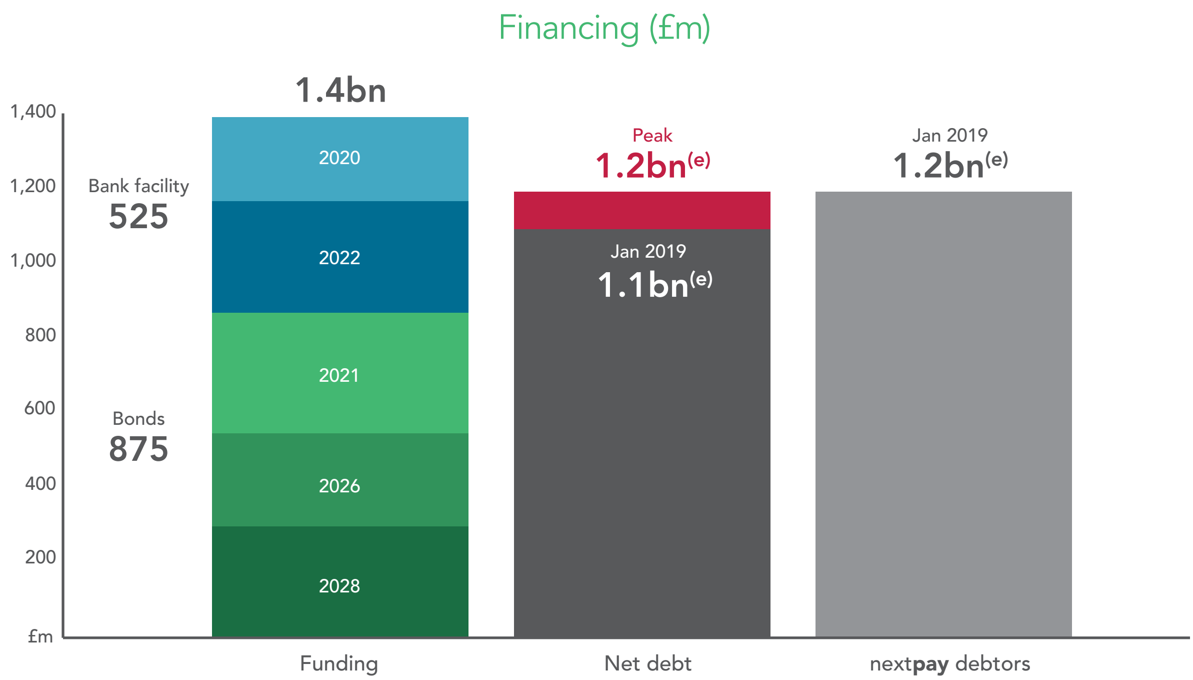
Cost savings	**£m**
Reduction in depreciation due to fully depreciated assets	11
Retail productivity and cost improvements	10
Brand marketing and catalogue creation	8
Interest payable on bonds and bank debt	4
Other savings	5
Total cost savings	**38**

Net debt and financing

Our year end net debt was £1,002m, which was £141m higher than last year. The entire value of the Company's net debt is more than matched by the value of our next**pay** debtor book, a financial asset worth £1,117m.

In the year ahead we are forecasting continued sales growth from customers using our credit facility, next**pay**. As a result we are forecasting next**pay** debtors to increase by £110m. We will finance this increase through net debt which we expect to increase to around £1.1bn by January 2019.

Net debt, which is forecast to peak in the year ahead at around £1.2bn, is securely financed through a combination of bonds and committed bank facilities. At January 2018 our financing consists of £875m of bonds and £525m of committed bank facilities as set out in the chart below.



The Group maintains its objective of retaining investment grade status. The Group's current and estimated peak net debt is within the limit of investment grade status which we estimate to be around £1.5bn.

Strategic Report

Cash flow

Cash generated in the year before interest, tax, depreciation and amortisation was £882m. Cash flow after non-discretionary outflows of taxation, interest and working capital was £663m. After investing in capital expenditure and paying ordinary dividends, the Group generated surplus cash of £335m.

In total, we returned £361m to shareholders through a combination of special dividends (£256m) and share buybacks (£105m[13]). Of the £105m of share buybacks, £79m related to surplus cash generated in 2017/18. A further £26m of buybacks were brought forward from surplus cash generation expected in 2018/19. During the year we purchased 2.2m shares at an average price of £48.81 and reduced our shares in issue at the start of the year by 1.5%.

The table below summarises our main cash flows in the year ended January 2018 and our forecast for the year ahead, based upon our central profit guidance. We expect to generate £300m of surplus cash (after interest, tax, capital expenditure and ordinary dividends). As outlined in our January 2018 trading statement, we intend to return £275m of remaining surplus cash (£300m surplus less £26m purchased in 2017/18) to shareholders through share buybacks, subject to market conditions.

£m	**Jan 2018**	Central guidance Jan 2019 (e)
Profit before Interest, Tax, Depreciation & Amortisation	**882**	866
Interest	**(32)**	(39)
Tax	**(106)**	(144)
Working capital and other	**(81)**	(38)
Discretionary cash flow	**663**	645
Capital expenditure	**(104)**	(130)
Ordinary dividends	**(224)**	(215)
Surplus cash	**335**	300
Financing additional Online debt	**(115)**	(110)
Special dividends	**(256)**	–
Share buybacks from cash generated Jan 2018	**(79)**	–
Share buybacks from cash generated Jan 2019	**(26)**	(275)
Movement in net debt	**(141)**	(85)

During February 2018, before the start of the closed period, we purchased 1.4m shares for cancellation at an average price of £49.23 and total cost of £69.1m. Based on our central guidance, this would leave a balance remaining of £206m to return to shareholders during 2018/19.

Interest and taxation

Interest paid in the year was £32m. However, as a result of timing differences the interest charged in the year ending January 2018 was £34m, a reduction of £3.7m on the prior year. This was primarily due to the prior year cost of double running bonds ahead of maturity. We are budgeting for the interest charge next year to increase to £39m, due to higher net debt and interest rates.

Our full year tax rate of 18.5% is slightly lower than the headline UK corporation tax rate of 19.2% (for the corresponding time period) due mainly to closing previous years' open tax filings with HMRC and overseas tax differentials. The tax payment of £106m in the year included a tax refund from HMRC of £31m relating to overpaid corporation tax attributable to prior years. We expect our effective tax rate for the year ending January 2019 to be around 18.5%.

13. £106m of share buybacks were completed in the year; however £1m purchased had not been paid for at the year end.

Capital expenditure

As set out in the table below, capital expenditure this year was £104m, which is £57m lower than the prior year. This reduction was due to lower spend on retail space, including four large store projects (c.£12m) that were delayed until 2018. In addition, there was less spent on warehousing because last year we made a large investment in a new automated furniture warehouse.

£m	Jan 2018	Jan 2017
Retail space expansion	56	108
Retail cosmetic capex	22	11
Total capex on stores	**78**	119
Warehouse	11	28
Head Office infrastructure	6	10
Systems	9	4
Total capital expenditure	**104**	161

New retail space remains our biggest investment at £56m. Cosmetic capex of £22m is much higher than normal because it includes £12m for the refit of our store in the Arndale Centre, Manchester which includes a number of important concession trials.

The £5m increase in systems capital expenditure mainly relates to the investment in new RFID scanners for our stores. Expenditure on Head Office infrastructure reduced to £6m as we completed the three year programme to upgrade our central facilities.

In the year ahead we expect capital expenditure to be around £130m, an increase of £26m on the current year. Next year's capex includes additional investment in our Online warehouses in order to increase capacity to manage future Online sales growth.

Ordinary dividends

The Board has proposed a final ordinary dividend of 105p, to be paid on 1 August 2018 and taking the total ordinary dividends for the year to 158p, flat on last year. This is subject to approval by shareholders at the Annual General Meeting to be held on 17 May 2018. Shares will trade ex-dividend from 5 July 2018 and the record date will be 6 July 2018.

Strategic Report

Part 2 – Strategic Response to a Changing Market

The challenges of 2017 & outlook for 2018

Overview

2017 was challenging in several different ways. A weak clothing market coincided with self-inflicted product ranging errors and omissions, at the same time, the business has had to manage the costs, systems requirements and opportunities of an accelerating structural shift in spending from retail stores to online.

The next three sections deal with each of the above issues in turn: (1) the clothing market, (2) product ranging issues and (3) the structural shift online. Under each heading we set out what we feel the issues have been in 2017, how they have affected our business and a prognosis for the year ahead.

The clothing market

During 2017 the clothing and homeware markets were adversely affected by the following economic factors:

- Unusually high **cost price inflation** meant we had to increase selling prices to maintain margins.
- A squeeze on **real incomes** as general inflation rose faster than average earnings put pressure on discretionary spending.
- A **sectorial shift** away from our core markets of clothing and homeware into leisure, entertainment and other experiential spending acted as a further drain on our revenues.

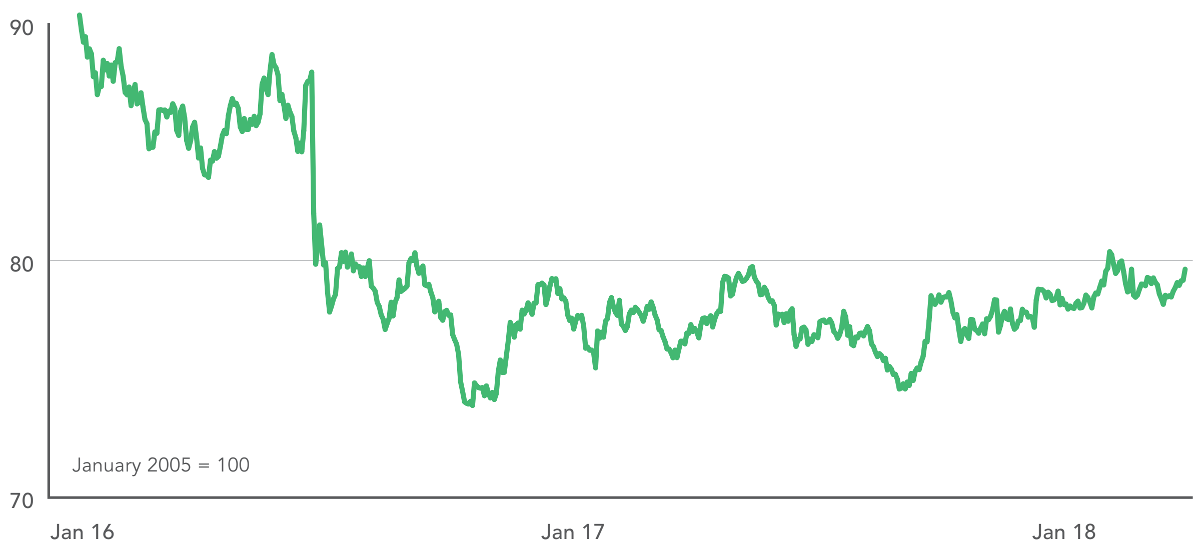
We believe that all of these factors are essentially **cyclical** and are likely, at some point, to reverse. The following three sections expand on each of the above.

Cost price inflation

2017 experience

The following chart shows the trade weighted value of the Pound over the last two years. Since the sharp post-referendum correction in June 2016 the Pound has found a new level and appears to have stabilised around 11% lower than its level in January 2016.

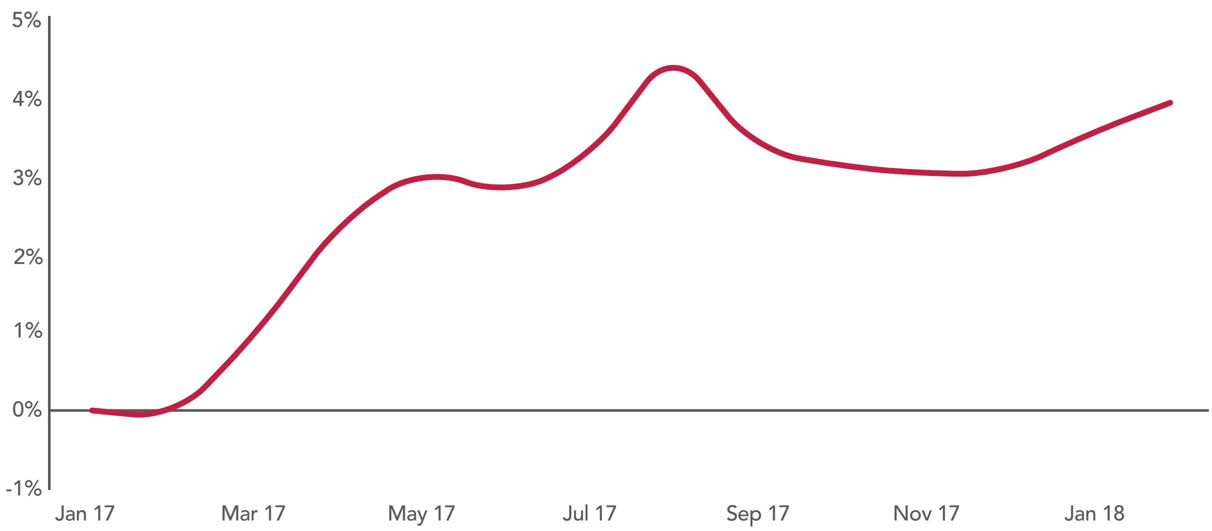
GBP Effective Exchange Rate Index



Source: BoE, Effective Exchange Rate Index: XUDLBK67 (20 March 2018)

We were able to mitigate much of the Pound's devaluation through negotiating better prices with existing suppliers and developing new sources of supply. NEXT's price increase of +4% was close to the inflation experienced in the UK clothing and homeware market as a whole (see graph below) and we have no evidence that our overall pricing has become less competitive as a result of last year's increases.

UK Total Market Clothing and Footwear Inflation



Source: ONS, Clothing and Footwear Actual (20 March 2018)

Outlook for cost price inflation 2018 and beyond

Looking ahead to 2018/19 the pricing environment is much more benign. The devaluation of the Pound has now worked its way through the system and we now have comparable year-on-year costing rates. The table below sets out the exchange rates we secured in Dollars (our most important trading currency) by buying season, the change versus the prior year and the corresponding price increases on like-for-like product.

Buying season	£/USD costing rate	vs Previous year	Average selling price variance
Spring & Summer 17	$1.39	-10%	+4%
Autumn & Winter 17	$1.26	-14%	+4%
Spring & Summer 18	$1.26	-9%	+2%
Autumn & Winter 18 (e)	$1.32	+5%	0%
Spring & Summer 19 (provisional)	$1.39	+10%	TBC

We have secured 98% of currency required for 2018/19 so our costing rates for the current year are fixed. Our provisional costing rate for Spring 2019 is 10% better than the current year, so we may see a return to modest price deflation as we move into 2019. If we do experience any improvement in cost prices it is our intention to pass on any benefit to our customers by way of lower prices.

Strategic Report

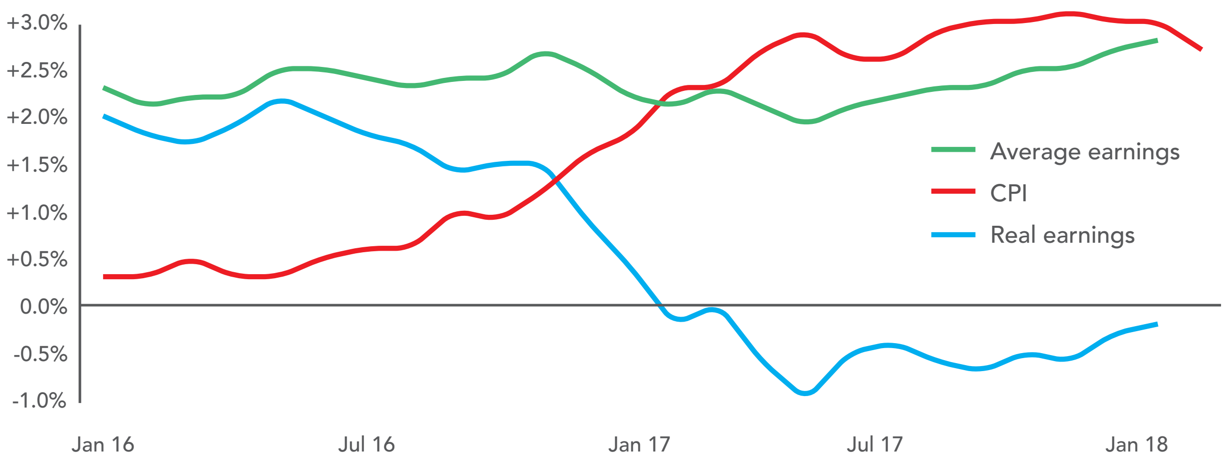
Declining real incomes

Real incomes in 2017

Real incomes in the UK declined as inflation in the wider economy overtook real earnings. Inevitably this placed pressure on our customers' discretionary spending as the price of essential goods rose faster than our customers' income.

The graph below shows the growth in average earnings and CPI inflation; the blue line shows the difference between the two numbers and is a measure of real income. Real incomes were in decline for almost all of 2017, albeit the decline moderated as we approached the end of the year.

Average Earnings, CPI and Real Earnings Growth



Source: ONS, CPI Actual (20 March 2018)/Average Weekly Earnings (21 March 2018)

Outlook for real income in the year ahead

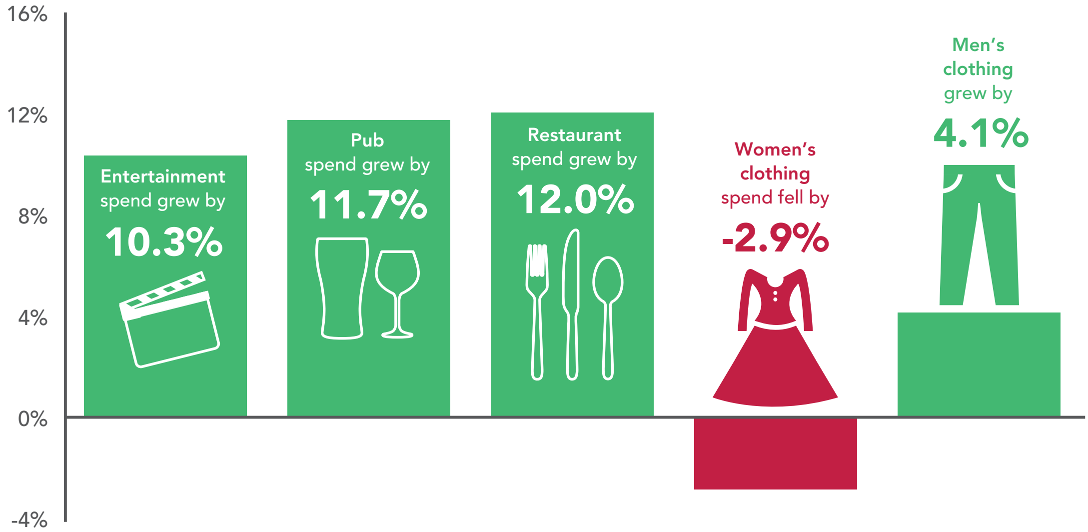
It appears that the easing of inflation in our own sector is being reflected in the wider economy, as other sectors benefit from stabilising currency rates. If that is the case and average nominal income growth remains at current levels, then we should expect to see little or no decline in real incomes during 2018.

Sectorial shift

Since October 2016 we have seen a shift away from consumer spending on clothing and homeware into other more experiential spending sectors. The illustration below contrasts the spending on entertainment, pubs and restaurants with women's and men's clothing.

We believe that this shift has been driven partly by innovation, investment and change in experiential sectors. This is evidenced by the surge in choice and quality of streaming services, TV shows, restaurants, pubs, bars and other leisure destinations. At some point this cyclical effect will change, but consumer cycles are very hard to predict and can take a long time to reverse, so we are not anticipating any easing of this headwind in the year ahead.

Sector Growth 2017 vs 2016



Source: Average of monthly Barclaycard UK spend data from February 2017 to January 2018

Strategic Report

Product ranging

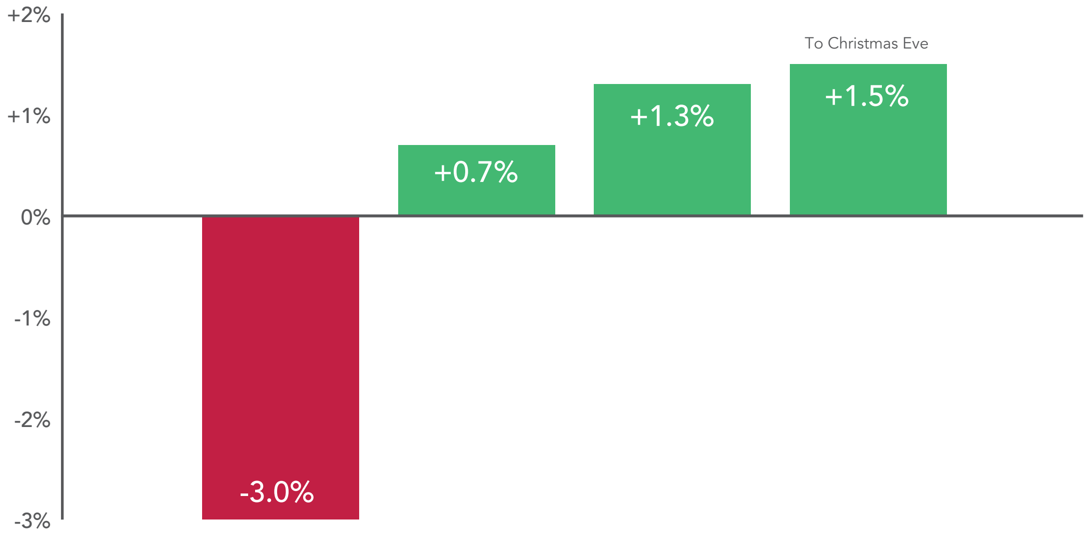
Issue and timescale for improvement

At our results presentation in March last year we talked about the mistakes we had made in our product ranges. In short, we had allowed our ranges to become too focused on more fashionable lines and omitted some of our easier-to-wear heartland product.

At that time we set out timescales for range improvement using the simplified graphic shown below. We believe that the improvements to our ranges were delivered in line with our forecast. Our quarterly full price sales performance clearly reflects the progressive improvements to our ranges.

Graphic used in March 2017 to forecast timescales for range improvements

Full Price Sales by Quarter 2017/2018



Brand full price sales performance as per NEXT plc quarterly trading statements

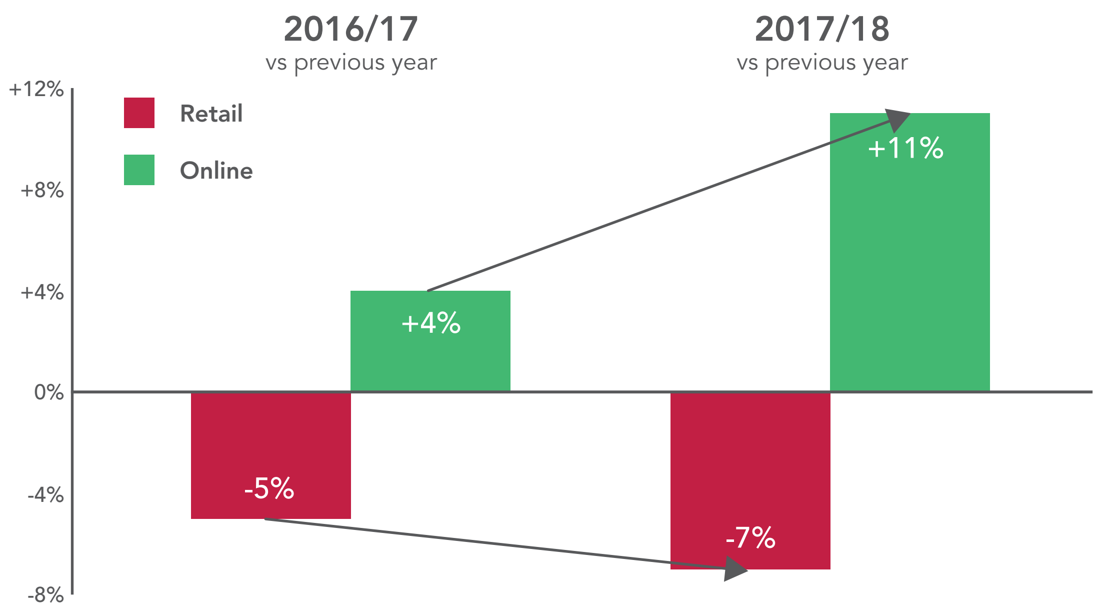
Comparative numbers and effect on sales in the year ahead

We are much happier with our ranges as we go into 2018 and expect sales performance in the first half to be flattered by the comparison with the mistakes of last year. This will be important to remember as we issue our trading statements throughout the year. Comparative numbers will harden as the year progresses so shareholders should not expect the performance of later quarters to be in line with the first quarter.

Structural change – the move online

We believe that the continuing transfer of sales from stores to online represents a permanent and profound change in the structure of our industry. Last year we saw an acceleration in the rate at which sales have transferred to Online. This change is partly as a result of the improvements we have made in our Online systems and marketing but it is mainly down to changing consumer preferences.

Full Price Sales Growth



In the long run this shift offers the NEXT Group a valuable opportunity to leverage its distribution, marketing and credit infrastructure in the UK and its brand overseas. However, the immediate effect of this change has been that although Group sales have been maintained, profit has not.

Strategic Report

The changing shape of NEXT

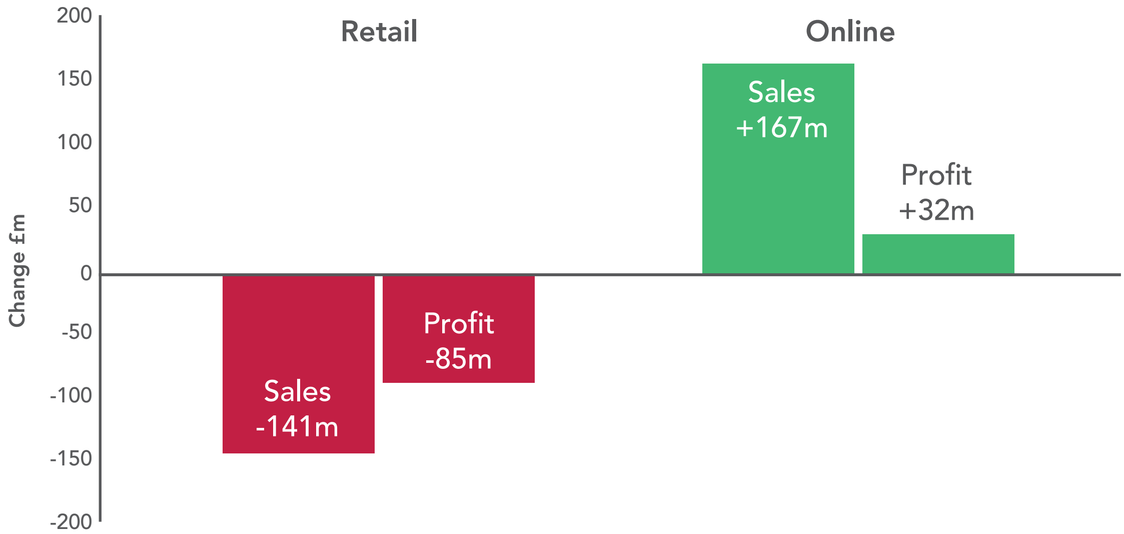
The table below clarifies the current total sales, profit and the contribution made by each business division. The Online business is, in effect, two businesses: a trading business and a finance business. For completeness, an approximate division between the trading and finance business is shown below.

Business	Sales £m	Profit £m	Sales participation	Profit participation
NEXT Online	1,665	307	40%	43%
NEXT Finance	223	119	5%	16%
Total Online (inc. Finance)	**1,888**	**426**[14]	**45%**	**59%**
NEXT Retail	2,123	269	52%	37%
NEXT Group	107	31	3%	4%
Total	**4,118**	**726**	**100%**	**100%**

The impact of structural shift on profits in 2017

Looking at last year's numbers it appears that every Pound of full price sales lost in Retail cost us 60p whilst every Pound gained Online delivered only 19p of profit.

Full Price Sales and Profit 2017/18 (£m)



This margin erosion is *partly* a result of the shift in sales from Retail to Online. Retail carries large fixed costs (such as rent, rates and energy) which, in the short term, are unable to contract with reducing sales. On the other hand, the Online business has significant variable costs which increase with sales (delivery, warehouse picking, returns processing, call centre activity etc.).

In addition to this transfer cost, last year, there were also other factors which eroded profitability in both businesses. It is important to separate these more temporary profitability issues from the margin erosion caused by sales transferring from one business to the other, as the latter is likely to remain an issue for some time whilst the others can be managed out of our profit and loss account.

14. Group interest of £35m has been charged to the Finance profit and loss account.

The table below is a simplified model which walks forward the decline in Retail sales and growth in Online sales.

	Profit walk forward 2017/18 £m	Retail	Online	Total
A	Change in full price sales	-141	167	26
B	Gain/(loss) on gross margin on NEXT branded stock	-92	109	17
C	Less (increase)/decrease in variable costs and new space	6	-29	-23
D	**Change in margin from sales growth**	**-86**	**80**	**-6**
E	Margin erosion from lower margin third-party brands	–	-30	-30
F	Total gain/(loss) in margin	-86	50	-36
G	Loss from lower clearance rates	-15	-7	-22
H	Cost increases	-12	-12	-24
I	Cost savings	28	1	29
	Total gain/(loss) in margin	**-85**	**32**	**-53**
J	Change in Group costs			-11
	Total gain/(loss) in margin after Group costs			**-64**

The walk forward uses approximate margins and requires a bit of explanation which is given for the relevant lines referencing the letters in the left column.

Line B shows the lost gross margin on sales *assuming that all items are sold at the gross margin of NEXT branded stock*. In reality, much of the sales growth was delivered by third-party brands that are sold at lower margins.

Line C accounts for the normal variable costs that would be incurred or saved as business levels change.

Line D shows the net effect of the change in sales and variable costs; in effect this is the cost of the structural shift in sales from Retail to Online. It is mitigated by the fact that sales grew faster Online than they did in store. If Online sales growth had exactly matched the Retail sales decline the loss would have been £18m, 13p for every Pound transferred.

Line E shows the margin erosion from growth in lower margin third-party branded business.

Line G shows the margin erosion caused by poorer clearance rates.

Lines H and I show the impact of cost increases and savings in our fixed cost base.

Line J shows the change in Group costs.

The analysis shows that although some of the margin erosion was caused by the switch from Retail to Online, the lion's share of the erosion came from other factors. The most important were: the cost of poorer clearance rates (-£22m), the margin erosion from third-party brands (-£30m) and the step change in Online systems and marketing costs (-£11m) meant that cost increases outweighed cost savings.

Profit attrition in the year ahead

Our central guidance for the year ahead is for Brand full price sales to be up +1.0%, a very similar increase to the year just ended. However, we are not expecting anything like the same level of profit attrition in the year ahead. The walk forward in the following table mirrors the format of the table explained in the previous section.

We estimate that lower margin erosion will be delivered by a combination of slightly higher sales growth, lower rental increases from new space, less erosion from third-party brands and (most significantly) less erosion from Sale clearance rates.

	Profit walk forward 2018/19 (e) £m	Retail	Online	Total
A	Change in full price sales	-137	172	35
B	Gain/(loss) on gross margin on NEXT branded stock	-89	112	23
C	Less (increase)/decrease in variable costs and new space	13	-29	-16
D	**Change in margin from sales growth**	**-76**	**83**	**7**
E	Margin erosion from lower margin third-party brands	–	-23	-23
F	Total gain/(loss) in margin	-76	60	-16
G	Loss from lower clearance rates	-2	-1	-3
H	Cost increases	-14	-10	-24
I	Cost savings	18	12	30
	Total gain/(loss) in margin	**-74**	**61**	**-13**
J	Change in Group costs			-8
	Total gain/(loss) in margin after Group costs			**-21**

Strategic Report

Summary table of challenges

The table below summarises the challenges facing the business, distinguishing between those we believe are cyclical and therefore temporary and those that are structural and permanent.

Cyclical	Internal/external	Outlook	Comments
Rising cost prices	External	Improvement 2018.	Short term issue with price inflation likely to be eliminated by second half.
Consumer squeeze	External	Possible improvement end 2018.	Some possible relief towards the end of the year as general inflation likely to fall back to below wage growth.
Sectorial shift	External	No foreseeable improvement yet.	Difficult to predict when this will correct and no sign of improvement yet. Ultimately cyclical so likely to reverse at some point in the next three years.
Range omissions	Internal	Improvement 2018.	Exceptional level of errors and omissions corrected as we head into 2018.

Structural	Internal/external	Outlook	Comments
Shift of sales online	External	No change to underlying trend.	Permanent change to retail environment with further to go. Continuing implications for cost management and investment across the business.
Online systems	Internal	Improvements ongoing.	Much improved and delivering material benefits, much more to do going forward.

Action plan for the year ahead

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

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

Improving product ranges

The quality and design of our product ranges remain all important and improving them is at the heart of what we do. The improvements we have made to our buying and design processes are the sum of many small changes, which we will not detail here. The improvement we saw in our quarterly performance last year (see page 24) gives us the confidence that we are moving in the right direction. We believe that we have further to go. In general terms we are looking to achieve the following:

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

Defend Retail sales and profitability

We are reconciled to the fact that Retail sales are likely to decline in the medium term and have set our budgets accordingly (see Store portfolio stress test on page 31).

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

These ideas are developed in the following sections.

Maximise online value of retail stores

One of the great advantages any online business has over retail stores is that all its stock is held in one central location. This means choice is not limited by physical display space or stock investment. In addition, stores have the disadvantage that once they have received their allocation, some sell more than planned whilst others sell less. So some stores end up in surplus whilst others are out of stock.

Over the past year we have given much thought as to how we can exploit the one big advantage shops have over Online warehouses – the fact that the stock is already close to our customers. We also looked at how we can mitigate some of the disadvantages caused by the fragmentation of Retail's distributed stock holding.

Find-in-store and same day click-and-collect

Ten per cent of the stock our customers attempt to order online is sold out. A further 20% is not available for immediate delivery either because we are waiting for returns or a supplier shipment. Of the items that are sold out online, 10% are likely to be available in a store within 10 miles from our customers' homes. 40% of the delayed items are also available in local stores.

To address this issue we launched a find-in-store function just before Christmas which enables customers to locate stock that is out of stock online. In September we aim to launch a full click-and-collect service that will allow customers to purchase these scarce items online and collect them in a store within one hour.

Store-to-store ordering and transfers

In June we will also enable store-to-store transfers to fulfil customer orders and introduce an element of stock rebalancing between stores – transferring surplus stock in one store to fill a deficit in another.

The find-in-store, click-and-collect and stock rebalancing projects are part of a wider project to make better use of our store network in its role as a distributed stock holding. Our long term aim is to further integrate our shops ever more closely into our Online trading platform. These projects are greatly assisted by the fact that we currently deliver to most of our stores every day to fulfil Online orders to store. The leveraging of this internal delivery network means that we are able to transfer stock between our stores, depots and warehouses at relatively low cost.

Improving the retail experience

Manchester Arndale experiment

Last year we set out our plans for the refit of our Manchester Arndale store. Arndale has a florist, prosecco bar, restaurant, children's activity centre, café, card & stationery shop, barber and shortly a car showroom. We are also in negotiation to add a spa operator and bridalwear concession. We estimate that the concessions in Manchester will deliver c.£800k of income to the store, accounting for around 40% of our rent, and 22% of total occupancy cost (rent, rates and service charge).

The restaurant is a 50/50 joint venture with Gino D'Acampo and Individual Restaurants Group and we take 50% of the profit rather than a rent. We have one other Gino's restaurant open in Hull. We have very much appreciated the professionalism, acumen and energy of our restaurant partners. The combined appraisal for the two stores is set out below. The economics of the restaurants are healthy but not as compelling as the appraisal hurdles we set for our investment in retail space. So the key for us will be the positive effect they have on the sales of the stores in which they operate. We plan to invest in four more Gino restaurants in the year ahead.

Combined appraisal for Hull & Arndale Gino restaurants

Turnover	£4m
Profit	£490k
Profit %	12%
Capex	£2.7m
IRR	28%

Concession expansion and projected income in the year ahead

In addition to the concessions opened in Arndale we are also in discussions with a travel operator, branded footwear concession and cosmetics concession. In the year ahead we currently plan to open 98 concessions across our store portfolio and expect to generate annualised income of around £5m from these concessions.

Strategic Report

Retail credit

It is often assumed that all of our £1.6bn credit sales are made Online. In fact, many of our Online customers use their next**pay** home shopping account instore and c.£240m of Retail sales are charged to Online accounts using their account card.

We are adapting next**pay** to allow us to market it directly to Retail customers. Initially we will offer this through online marketing and emails to known Retail customers. Going forward we will trial offering it in stores, though this needs to be done with extreme care to ensure that customers are correctly informed of everything they need to know before opening a credit account and we comply with all credit regulations.

Retail credit is likely to be higher risk than home shopping credit and we will have much to learn about this product. However the introduction of a retail credit offer puts stores on an equal footing with Online by enabling customers to spread the cost of their purchases. All the evidence we have from the next**pay** account cards is that customers who are able to spread the cost of their retail purchases are likely to increase their retail spend.

Managing occupancy costs

One of the reasons Retail profitability is so highly geared is that our occupancy costs are a high and fixed cost as a percentage of sales. Managing these costs in the short term is very difficult but in the longer term there is scope for some of our occupancy costs to reduce.

The vast majority of our leases are on upward only rent reviews so rents do not come down during the lifetime of a lease. However our store portfolio has an average lease term of just under seven years and 240 of our leases, representing 32% of our rental liabilities, will be up for renewal within the next three years.

Options at lease end

When a lease comes up for renewal we have three options:

- Remain: renegotiate rent, lease term, and a capital contribution to the refit of the shop.
- Close the store.
- Hold over: remain in occupation paying the historic rent on a very short term lease with a mutual break.

Lease renewals 2017

Our experience over the last year is that when we renew leases we get significantly better terms. Where we are unable to secure better terms we generally are not renewing the lease.

During the year ending January 2018 we renewed the leases on 19 stores. The table below sets out the rent before and after the renewal and gives the capital contribution paid to us. These capital contributions were used to refit the renewed stores and get them to a standard that will see them through to the end of the new lease. In many cases we have taken the opportunity of the renewal to add new concessions. The concession income is also shown in the table.

As can be seen from the table the net rent fell by -28%. The capital contribution of £5m would pay for a significant part (though not all) of the cost of refitting these stores. The average lease term was seven years and the portfolio profitability before central overheads is now 21%. This level of profitability is such that the store should remain profitable for the life of the lease, even in adverse like-for-like trading conditions. Before we approve any new store we now test the year ten profitability assuming -10% annual compound like-for-like sales decline.

19 stores renewals 2017/18	**Before renewal**	**After renewal**	
Gross rent (before concession income)	£6,500k	£4,900k	-25%
Concession income	£80k	£250k	
Net rent	**£6,420k**	**£4,650k**	**-28%**
Net rent/sales (VAT inc.)	10.3%	7.5%	
Capital contribution		£5,000k	
Average lease term		7 years	
Average net branch contribution		21%	

Prospective lease renewals 2018

Looking forward to the year ahead we believe we are likely to renegotiate 29 leases; the remaining stores that are due for renewal will either be held over at the passing rent, pending future negotiation, or will be closed. We currently plan to close 10 small stores next year of which most are at the end of their lease.

The table below shows what we expect to achieve in the 29 stores we plan to renew in the year ahead. It is a similar pattern to last year, though importantly the average lease term is expected to come down to five years.

29 stores renewals 2018/19 (e)	**Before renewal**	**After renewal**	
Gross rent (before concession income)	£9,300k	£7,300k	-22%
Concession income	£90k	£560k	
Net rent	**£9,210k**	**£6,740k**	**-27%**
Net rent/sales (VAT inc.)	9.0%	6.5%	
Capital contribution		£7,000k	
Average lease term		5 years	
Average net branch contribution		21%	

Store portfolio stress test

A more pessimistic longer term scenario

Whilst there is much we can do to make our stores more profitable and relevant in an online world, we also need to model a worst case scenario for our stores. In our last report we projected what would happen to the economics of our store portfolio in the event of ten years of -6% negative like-for-like sales. With last year's like-for-like sales of -9.1%, we have tested what would happen to our stores at -10% over a longer period of time.

It is important to emphasise that the scenario we set out below is only a scenario. It is not what we actually think will happen. I have little doubt that shareholders may read that this worst case scenario is what NEXT is planning and that the projected store closures required in these circumstances are what the Company will actively seek to achieve. That is not the case, although it does make for a better news story! The purpose of this scenario is not to plan the future; rather it is to test whether our store portfolio is an asset or a liability in extreme circumstances.

Our verdict is that it remains an asset, albeit one that is declining in value, and not a liability.

A very profitable portfolio

Before discussing the stress test, it is important to point out that our current store portfolio is extremely profitable. Currently the vast majority of our stores make a healthy profit, with 94% of turnover delivering a net branch profit of more than 10%.

The left hand table below sets out the percentage of our turnover within stores of different levels of profitability as at January 2018. The second table shows the same information projected forward one year, based on the assumption that like-for-like sales are down -8.5%, which is in line with our central guidance.

January 2018

Store profitability	% of turnover
>20%	59%
>15%	85%
>10%	94%
>5%	97%
>0%	98.7%

January 2019 (e)

Store profitability	% of turnover
>20%	46%
>15%	74%
>10%	90%
>5%	95%
>0%	96.8%

Strategic Report

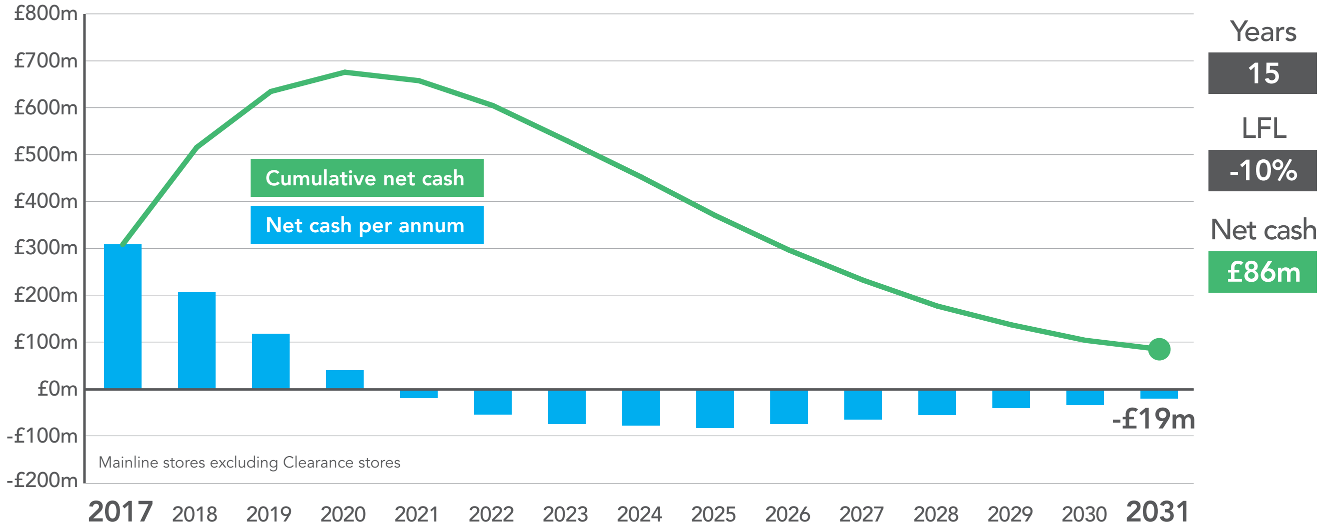
Stress test assumptions

The following stress test is based on the following assumptions:

- We shut unprofitable stores at their lease expiry.
- When profitable stores reach the end of their lease we are able to continue trading, paying the same rent on a short term lease ("holding over").
- We take on no new space, are unable to reduce any rents and take on no concession income.
- Fixed costs that are shared between the Retail and Online businesses are absorbed as the Online business grows. For the purpose of this model, it is assumed that Online sales growth matches the Retail sales decline.

Base scenario: like-for-like sales at -10% for fifteen years

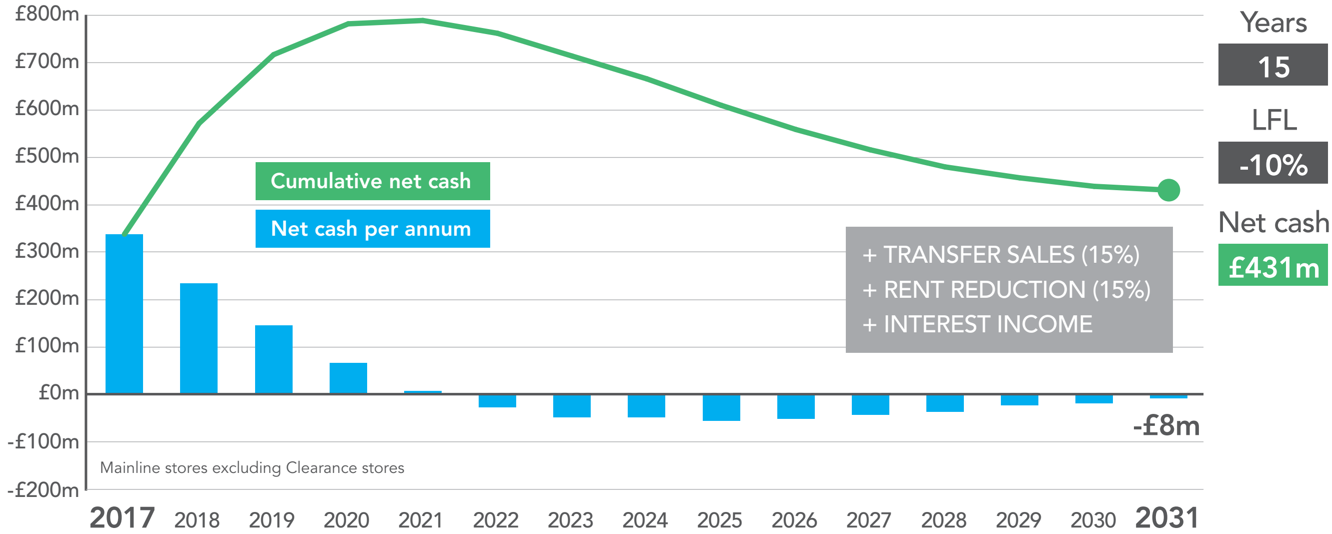
In this scenario the cumulative cash generated by our stores over fifteen years is £86m and in year 15 there is a £19m cash loss from the remaining portfolio.



Scenario accounting for rent reductions, interest income and sales transfer

The scenario above does not account for three factors that would improve the portfolio profitability. These factors are set out in the table below:

Factor	Description	Cum cash effect	Year 15 cash effect
Retail interest income	Retail stores generate a profit from the use of our Online credit account in stores. This profit is a genuine Retail profit but is not accounted for in the Retail profit and loss account.	+£167m	+£1m
Rent reductions	In the scenario of -10% like-for-like sales it is very likely that retail rents would fall at lease renewal. Our experience last year was that rents fell by -25% on average at lease renewal. This scenario assumes that rent reductions are -15% at renewal.	+£23m	+£0m
Sales transfer	When we open new shops that are close to existing stores we would normally experience some cannibalisation, whereby some of the sales gained in the new store come at the expense of a nearby shop. When we close stores we would expect to see this effect in reverse. Currently we generally experience cannibalisation of 15% to 25%. In this scenario we have assumed a 15% transfer of sales from closing stores to nearby shops.	+£155m	+£10m



In this, more complete scenario, the store portfolio generates **£431m** of cash and only loses **-£8m** in year 15. Whilst the outlook for Retail in a -10% like-for-like scenario severely undermines the value of our Retail business, it does not create a liability. Nor does it in any way detract from the value of our Online business which is very likely to grow in the event Retail sales move back at this rate.

Maximise growth online

We continue to develop our product offer online: expanding the breadth of our own product offers alongside those of our partner brands through LABEL and Lipsy & Co. (whose progress is described on pages 13 and 14). This section focuses on our systems and logistics infrastructure.

Online investment paying dividends

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

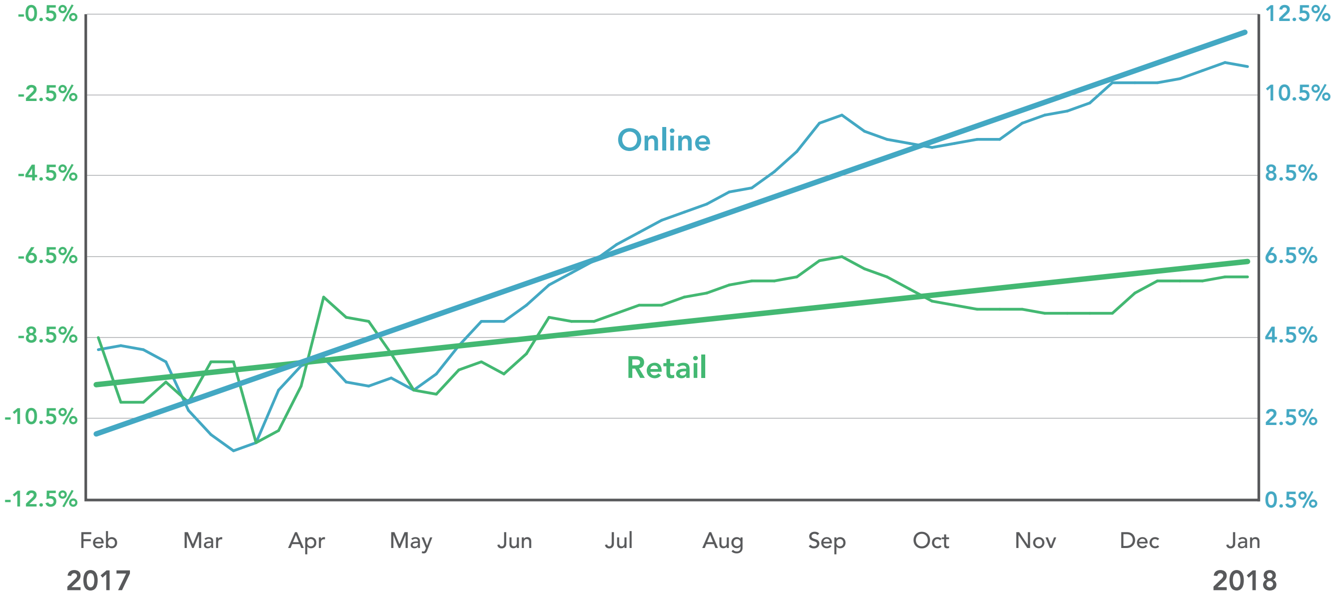
These systems all served to improve our online capability and resulted in a large number of small improvements to the online shopping experience. Initiatives include intelligent recommendations, a new mobile site, new flowers site, faster checkout and registration, the introduction of NEXT Unlimited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

The graph below shows that both the Retail and Online businesses improved as our ranges recovered. However, the acceleration online was much more pronounced, and we believe that this was largely as a result of the improvements we made to our website, marketing and online services.

Strategic Report

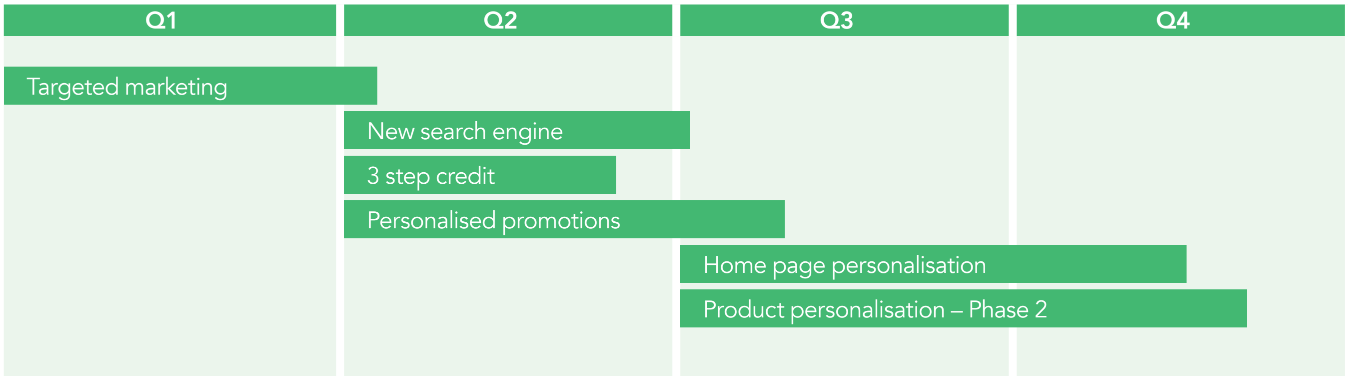
Interestingly, no single development made a significant difference on its own. Each improvement made shopping with NEXT just a little bit easier and delivered a small increase in sales. It appears that sales have benefitted more than might have been expected from the sum of the parts, as the cumulative effect of developments collectively made for a much better shopping experience.

2017/18 Full Price Sales Growth (Cumulative)



Online systems and marketing development in the year ahead

There is still a great deal more that we can do to improve our Online business systems and we intend to maintain the levels of increased investment reached last year, although we are not planning for another step change in our Online cost base. The graphic below shows the timetable for some of our more important projects in the upcoming year. This is by no means a definitive list and we have many other smaller projects that we will deliver during the year. The table beneath the graphic summarises the nature and benefits of each project.



Project	Description
Targeted marketing roll out	To date we have only really experimented with our Data Management Platform. In the coming year we will deploy it in anger. This technology enables us to more accurately target our spend on third-party websites, tailoring the products we offer and the amount we pay for an advert to the expected productivity and preferences of each potential customer. Early signs are encouraging. Trials indicate that we can deliver an improvement of at least 12% return on advertising spend (i.e. 12% more sales for the same investment in advertising). However this application is not just about improving returns on marketing spend, it also allows us to target customer groups we could not identify in the past.
New search engine	We aim to launch a new Artificial Intelligence based search engine in the second quarter of the year. The main advantage it will have over our current search engine is that it will be able to learn from customer behaviour. So it is much less reliant on the attributes we manually allocate to our products.
3 Step credit offer	This is a new credit product for NEXT, aimed at customers who do not have (or do not want) a next**pay** account. It will enable customers to split the cost of any purchase into three equal monthly amounts without incurring interest, as long as each monthly 3 Step payment is made in full and on time. Customers will have the flexibility to pay less than the monthly 3 Step payment provided they pay at least the monthly minimum, but if they do, they will incur interest on the balance they have not yet paid. We anticipate that this product will generate some interest income from those who choose not to pay the full 3 Step payments; but the main aim of the product is to drive sales growth by allowing customers to spread the cost of their purchases.
Personalised promotions	We will deliver a personalised promotions engine that will allow us to target specific promotions on specific products to specific customers. We believe that there may be particular merit in selectively promoting new product categories to existing customers (e.g. women's jeans to female customers who currently only buy our children's clothing).
True personalised home pages	Currently our level of home page personalisation is crude. This application will allow us to serve 12,000 home page variations driven by the product and service preferences of individual customers.
Product personalisation	This will allow us to embellish and personalise our own NEXT product, for example embroidering names on NEXT babygrows or jeans.

Developing our delivery network

We have already discussed the ways in which we can further integrate our store network into our online trading platform (see section entitled "Maximise online value of Retail stores" on page 29). We are also planning to integrate some of our newest suppliers into our online platform.

Last year we started to sell personalised products on our website. Orders are passed to a network of independent suppliers who personalise their products and send them directly to our customers. The new business started well and looks as though it will take at least £7m this year.

This service has two operational problems. Firstly, we are unable to deliver these products through our stores. Secondly, delivery tracking and problem resolution is convoluted if items do not arrive as expected. In addition, we lose the opportunity to consolidate items into a single delivery which would be more cost effective.

In October we intend to integrate key personalised gift suppliers into our delivery network. We will use our next-day to store delivery fleet to collect items from suppliers and inject them into our network when our vans return from their rounds. Most of these suppliers are not more than a few miles from one of our existing delivery routes so the cost of collection will be low. We believe that by bringing these deliveries into our network we have the opportunity to increase the quality of the delivery service, reduce costs and potentially increase speed of delivery.

Strategic Report

Attack costs

Saving money in the right way

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

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

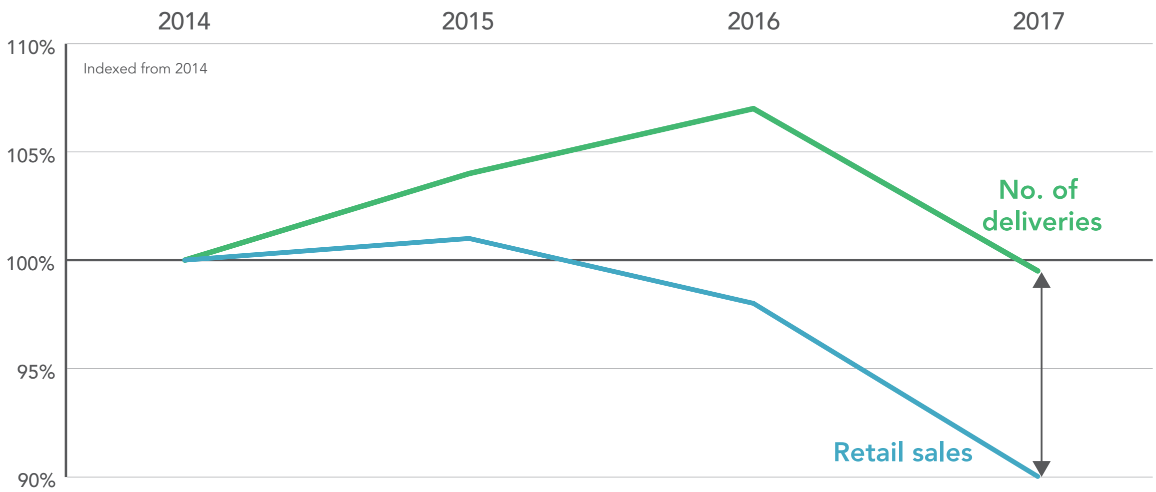
RFID stock counting – technology driving efficiency

Every week our stores scan all stock on their shop floors to ensure that we accurately replenish from stock rooms to the shop floor. Using a traditional Hand Held Terminal (HHT) staff can scan 1,275 items per hour.

We have recently introduced new Radio Frequency Identification (RFID) tags in our stores allowing us to scan using new RFID enabled HHTs. This is forecast to increase hourly scanning rates to 5,100, saving £2m per annum in wage costs.

New delivery schedule – right sizing our delivery fleet

Over the last three years our Retail sales have fallen by 10% but the number of deliveries we make has remained broadly in line with 2014. We are in the process of changing our delivery schedule to bring it in line with the volume of units moving through the business. We anticipate that this will eliminate £4m of unnecessary cost at a time our Retail business desperately needs to save money. The graph below shows our sales and deliveries indexed to 2014.



Reduction in the costs of catalogue production

Our catalogues and other brochures remain an important part of our business. We distribute our major publications nine times in the year, to coincide with the launches of nine seasonal ranges. These brochures remain popular with large numbers of customers and are proven to drive sales if sent to the right people.

However as digital technology advances catalogues have become less relevant to an increasing number of new customers. We are constantly analysing the effect of catalogues on different customer segments and are careful to prevent distribution of free brochures when they no longer generate a return. This exercise, along with efficiency savings in photography and reduced page numbers, is expected to save £7m in the coming year.

Costs and savings in the year ahead

In our central forecast we are budgeting for cost increases of around £35m, as set out in the table below.

Cost increase forecast for 2018/19	**£m (e)**
General wage inflation	17
Interest payable on bonds and bank debt	5
Investment in online systems	4
National Living Wage	3
Occupancy (rates, energy taxes)	3
Lower clearance rates of Sale stock	3
Total cost increases	35

To date, we have identified around £30m of cost savings which mitigate some of the cost increases detailed above. This includes a non-cash £12m saving in depreciation.

Part 3 – Sales and Profit Guidance

Outlook for sales

The table below sets out the central guidance for full price sales growth in Retail and Online for the year ahead. For comparison we give the actual figure for last year in the second column. The divisional guidance comes with a health warning: it is very early in the year to be giving sales guidance by division but we have more confidence in guidance for the Group as a whole than we do for the individual parts.

% Variance on previous year	Central guidance for 2018/19	Performance in 2017/18
Retail full price like-for-like sales	-8.5%	-9.1%
Total Retail full price sales (inc. contribution from new space)	-7.4%	-7.0%
Online full price sales	+10.3%	+11.2%
Total full price sales	**+1.0%**	**+0.7%**

We are budgeting for a slightly better full price sales performance in the year ahead than last year. This is because in the first half last year we were adversely affected by ranging errors, which we believe we have now corrected. As a result we expect growth in the first half to be stronger than the second when comparative sales improve (for quarterly sales history and guidance see page 24).

Outlook for profits

We are maintaining the guidance range we issued for the full year in our January 2018 trading statement. At our central guidance of full price sales growth of +1.0%, we estimate that Group profit would be around £705m. This profit is marginally down on the current year as we expect operational costs to continue to grow faster than sales. We expect EPS to be enhanced by +4.3% as a result of the continuing distribution of surplus cash generation in the form of share buybacks. So, at our central guidance EPS would grow by +1.4%. Our central guidance for sales, profits and EPS is set out in the table below.

Full year estimate to January 2019	Central guidance
Total full price sales versus 2017/18	+1.0%
Group profit before tax	£705m
Group profit before tax versus 2017/18	-2.9%
Earnings Per Share growth versus 2017/18[15]	**+1.4%**

First quarter trading update

Our first quarter trading statement will cover the fourteen weeks to 5 May 2018 and is scheduled for Thursday 10 May 2018. This is one week later than originally planned in order to give a more meaningful comparison with last year due to the timing of the May Day Bank Holiday.

Lord Wolfson of Aspley Guise
Chief Executive

23 March 2018

15. EPS growth is based on our latest forecast of the timing of share buybacks.

Strategic Report
Business Model

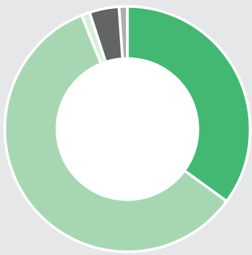
NEXT is a UK based retailer which offers exciting, beautifully designed, wonderful quality clothing and homeware which meets and exceeds the aspirations of our customers, at prices that are within the reach of most people. Our customers can be confident in our design, our quality and that they are getting value for money. NEXT is one of the largest clothing and Home products retailers in the UK by sales, and a member of the FTSE 100 index.

In 1981, J Hepworth & Son, Gentleman's Tailors, bought a chain of shops with the aim of developing a womenswear brand called NEXT. The first NEXT womenswear store opened in 1982 and over the following years menswear, home and childrenswear were added to the product ranges. In 1991 the move to larger stores commenced, bringing together all four product groups and ranges across both retail and home shopping formats. The NEXT Online website was launched in 1999 to enhance the traditional catalogue offer and has become a significant driver of the growth of the Group's sales and profitability. The strategy of larger stores and multi-channel retailing has been continuously developed over the past two decades.

The Group is primarily comprised of:

- NEXT Retail, a chain of around 530 stores in the UK and Eire.
  The majority of our stores sell clothing, footwear, accessories and/or home products; and we now operate 35 large combined fashion and home stores.
- NEXT Online (formerly NEXT Directory), an online and catalogue shopping business with over 4.9 million active customers and international websites serving approximately 70 countries.
  *By embracing the internet, providing exceptional customer service and developing overseas opportunities, NEXT Online's sales have grown by more than 130% over the last ten years. The NEXT Online business provides customers with the option of a credit facility for purchases called next***pay***. Through LABEL, NEXT Online offers premium brands to customers.*
- NEXT International Retail, with around 200 mainly franchised stores across the world.
  NEXT's franchise partners operate over 190 stores in 32 countries; there are also a small number of overseas stores which NEXT operates directly.
- Lipsy, which designs and sells Lipsy and other branded fashion products.
  Lipsy trades from 46 stores, through NEXT Online, and through wholesale and franchise channels.
- NEXT Sourcing, which designs and sources NEXT branded products.
  NEXT Sourcing (NS) is our Hong Kong based internal sourcing agent which competes for business against other suppliers to NEXT Retail and Online.

2017/18 profit by segment



NEXT Retail	35%
NEXT Online	59%
NEXT International Retail	1%
NEXT Sourcing	4%
Other	1%

What we do

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

2 Global sourcing
Over 140 million products are sourced globally from around 40 countries.

During the year, NEXT Sourcing provided around 40% of the NEXT branded products from our global supplier base including 4 owned factory sites.

Over 100 brands are sold through LABEL online.

3 Efficient supply chain
Our network of warehouses and international hubs deliver product cost effectively and efficiently.

9 warehouses, 6 depots and 4 international hubs.

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

4 Outstanding customer experience
Providing value for money and outstanding customer service is key to NEXT. We offer customers a credit facility for UK NEXT Online purchases, called next**pay**.

Our large number of stores, complemented by an integrated multi-channel offering, offers convenience to customers.

In store design and concession partners provide an exciting shopping environment.

5 Returning value to shareholders
We are highly cash generative, allowing us to invest in the business and return value to shareholders through dividends, share buybacks and earnings growth.

Our key resources and relationships

People

The customers and employees of NEXT are key to achieving the objectives of the business.

Customers are at the heart of everything we do.

For further details refer to page 48

Knowledge and know how

Over 35 years of retailing experience.

The NEXT Brand offers uniquely designed and high quality products; forging long term relationships with customers and suppliers.

Suppliers

Sourcing globally to deliver quality and value under ethical trading principles.

For further details refer to page 49

Buildings and Infrastructure

The predominantly leased store portfolio is actively managed, with opening and closure decisions based on store profitability and payback.

For further details refer to page 8

Our warehouse and logistics operations provide an efficient and agile product distribution network.

Well established, and engaging websites, relevant for all our customers.

Finance

Effective management of financial resources including focus on cost management and maximising returns from space.

Further detail on the performance and development of the Group's businesses can be found in the Chief Executive's Review on pages 4 to 37, which forms part of this Strategic Report along with Key Performance Indicators (pages 40 and 41), Risks and Uncertainties (page 42), Employees (page 48), Social, Community and Human Rights (page 49) and Environmental Matters (page 50).

Business strategies and objectives

How we create value

The Board regularly reviews the Group's strategic framework for long term value creation. The primary financial objective of the Group is to deliver long term, sustainable returns to shareholders through a combination of growth in Earnings Per Share (EPS) and payment of cash dividends. Over the last ten years, EPS and ordinary dividends per share have both increased by over 140% and the Company's share price has increased by over 250%. This long term value has been created through the pursuit of the following strategies:

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

Read about our action plan for the year ahead on page 28

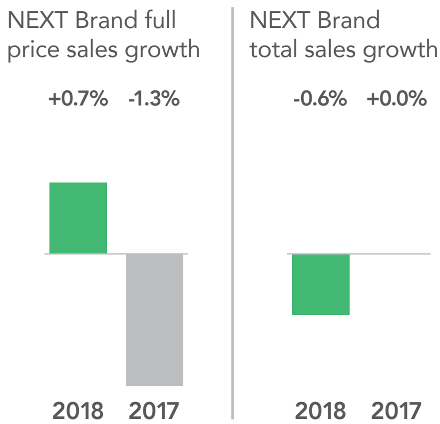
Read about the outlook for sales and profit on page 37

Strategic Report

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 152 for further details.

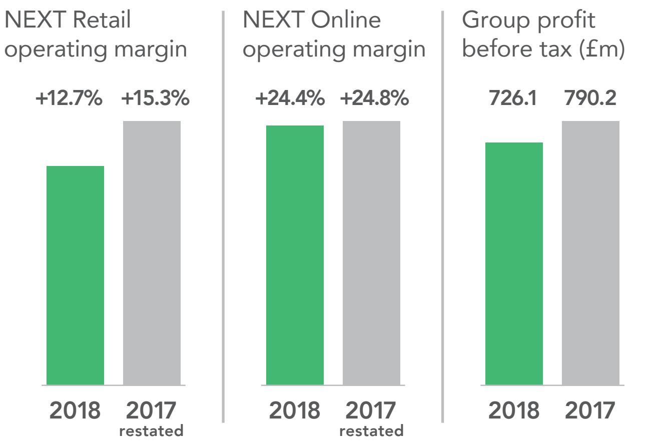
Sales (%)



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

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

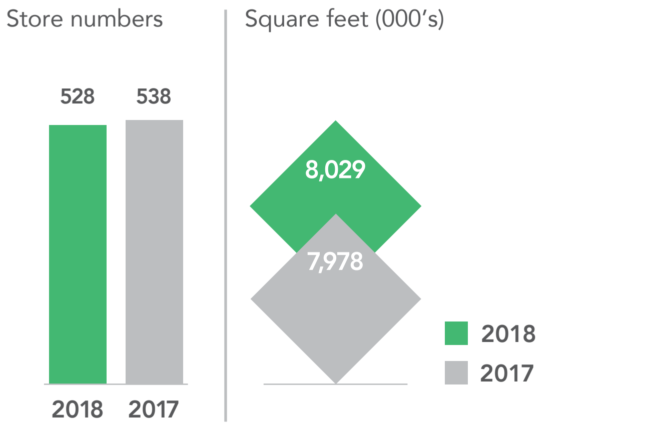
NEXT profitability



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

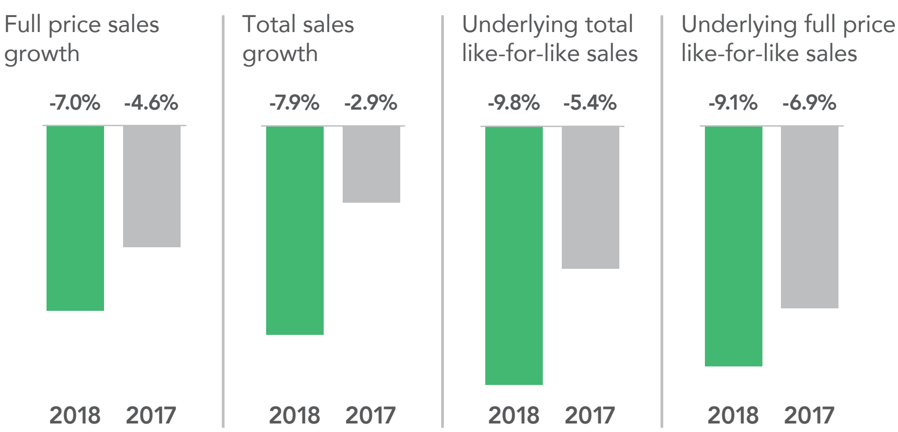
The 2017 operating margin has been restated to reflect the change in recharges (refer to page 6 of the Chief Executive's Review).

NEXT Retail selling space

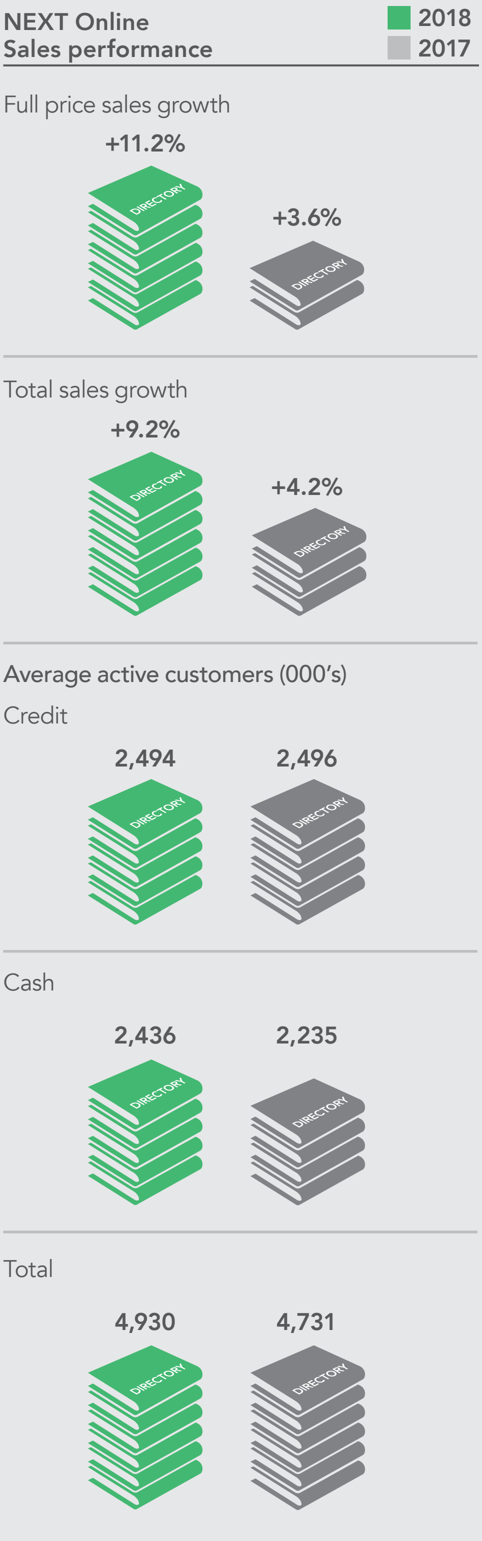


Selling space is defined as the trading floor area of a store which excludes stockroom and administration areas and is shown as at the financial year end.

NEXT Retail sales performance



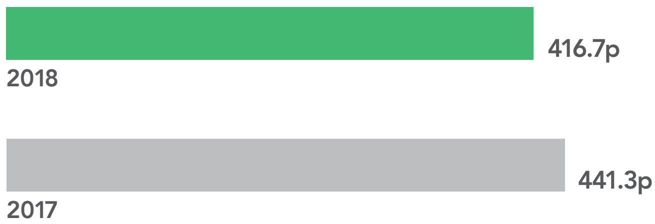
Underlying like-for-like sales represents the growth in sales from stores which have been open for at least one full year, excluding stores impacted by new openings.



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

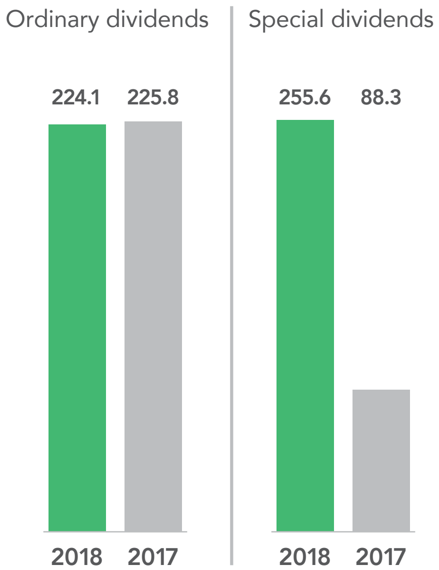
Credit customers are those who order using an Online credit account, whereas cash customers are those who pay when ordering.

Earnings Per Share

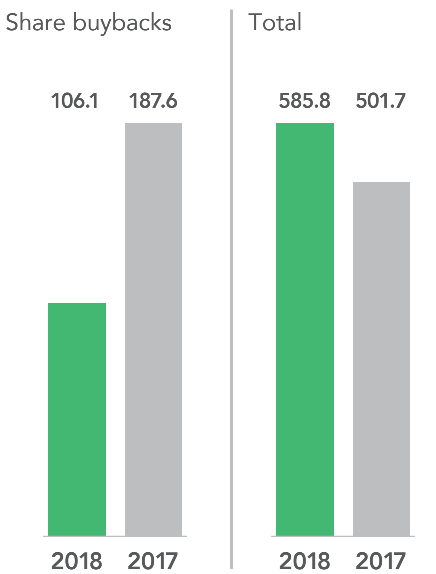


Refer to Note 8 of the financial statements.

Returns to shareholders (£m)



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



2,174,357 shares were purchased in the financial year (2017: 3,613,121) at an average cost per share of £48.81 (2017: £51.91) including stamp duty and associated costs. The average price before costs was £48.51 (2017: £51.59). Buybacks represented 1.5% (2017: 2.4%) of opening share capital.

Strategic Report
Risks and Uncertainties

Risk management and internal control framework

The Board has a policy of continuous identification and review of principal business risks, and oversees risk management. This includes identifying key risks, determining control strategies and considering how those risks may affect the achievement of business objectives, taking into account risk appetite.

Executive directors and operational management are delegated the task of implementing processes to ensure that risks are managed appropriately. On a day-to-day basis, the risk management process is managed and co-ordinated by the corporate compliance team. Each business area is responsible for preparing and maintaining operational risk registers which involves identifying, evaluating, managing, measuring and monitoring the risks in their respective areas. Risk registers are prepared using consistent risk factors and incorporate business impact and likelihood ratings, both before and after the effect of any mitigating factors or controls. Progress and issues are reported to the corporate compliance team on a regular basis, and more formal annual reviews are also carried out to ensure robustness and consistency across the business. In addition, internal audit plans are agreed with the Audit Committee based on the risks and controls identified through this risk management process.

During the year the Board carried out a detailed evaluation of the effectiveness of the risk management and internal controls systems for all parts of the business. This covered all material controls including financial, operational and compliance controls, and the Board is satisfied that they are operating effectively for the financial year to January 2018 and up to and including the date of this report. The evaluation incorporated a review of reports, discussion, challenge and assessment of the principal business risks with relevant senior management. During the year, the directors also received presentations from management on specific higher risk areas and agreed key action plans including further enhancement of mitigating controls.

The work and findings of the corporate compliance team are also reviewed, discussed and agreed by the Audit Committee on a regular basis; any significant matters are communicated to the Board. No significant failings of internal control were identified during these reviews. Operational risk registers detail limited, though not significant, control weaknesses and clear action plans are in place to address these.

Following last year's independent review undertaken by Ernst and Young (EY) in relation to the assessment of NEXT's cyber risk, EY completed a further progress review this year. The output from this review was discussed in detail with relevant senior management and presented to the Audit Committee and the Board. Cyber risk has been on the agenda for discussion at every Audit Committee meeting this year. Good progress has been made during the year, such as the further development of security monitoring and alerting, and working to achieve the key requirements of the General Data Protection Regulation (GDPR) which takes effect from May 2018. GDPR will have limited operational impact on our business. The agreed cyber risk action plan continues to be prioritised and tracked and we support this important area with significant resources devoted to the development, maintenance and security of IT systems.

Brexit

Following the outcome of the UK referendum to leave the EU, there are a number of uncertainties that continue to exist regarding how the exit will be engineered. Therefore, the extent to which our operations and financial performance are likely to be affected in the longer term will only become clear as more details emerge. We have considered the possible consequences that Brexit could have upon our business and during the year we established a Brexit Steering Committee, comprised of relevant senior managers. The Brexit Steering Committee formally reports to the Group Finance Director.

We have also performed a detailed risk assessment across all business areas to ensure that we have a clear view of where the Brexit related risks and impact could occur. Brexit does not raise a new principal risk for us, however it does have the potential to impact a number of our existing risks at an individual risk level, e.g. exchange rates, changes in tariffs and duties, regulatory changes and economic uncertainty.

We will monitor the risks and uncertainties arising from Brexit within the risk management and control process described above. This provides a more effective and operationally focused mitigation of these risks on an ongoing and timely basis.

Assessment of principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Those principal risks are described below along with explanations of how they are managed or mitigated. The principal risks areas remain the same as reported last year. Reputational risk is not in itself one of the principal risks detailed below, however, it does have the potential to impact a number of our existing risks and is an important consideration when we assess our risks and potential impacts. The Board is committed to ensuring that the key risks are managed on an ongoing basis and operate within an acceptable level. Whilst these risks all have the potential to affect future performance, work is undertaken to mitigate and manage these risks such that they should not threaten the overall viability of the business over the three year assessment period (refer to the viability assessment on page 47).

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

Description of principal risk or uncertainty | **How the risk or uncertainty is managed or mitigated**

Business strategy development and implementation

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

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

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

In common with other retailers we continue to experience a significant shift by customers from shopping in retail stores to shopping online. Longer term financial forecasts for our Retail business have therefore been prepared and stress tested during the year (see page 31). These forecasts provide a mechanism for ensuring that business profitability is reviewed and managed and agreed actions are in place to take into account changing behaviours and trends.

The Audit Committee monitors strategic and operational risk regularly and any significant matters are reported to the Board.

Management team

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

The Remuneration and Nomination Committees identify senior personnel, review remuneration at least annually and formulate packages to retain and motivate these employees, including long term incentive schemes.

The Board considers the development of senior managers to ensure adequate career development opportunities for key personnel, with orderly succession and promotion to important management positions.

Strategic Report

Description of principal risk or uncertainty	How the risk or uncertainty is managed or mitigated
Product design and selection NEXT's success depends on designing and selecting products that customers want to buy, at appropriate price points and in the right quantities. In the short term, a failure to properly manage this area may mean that NEXT is faced with surplus stocks that cannot be sold at full price and may have to be disposed of at a loss. In the longer term, the reputation of the NEXT Brand may suffer. Product design and selection is therefore at the heart of the business.	Executive directors and senior management continually review the design, selection and performance of NEXT's own product ranges and those of other brands sold by NEXT. To some extent, product risk is also mitigated by the diversity of NEXT's ranges. In addition, executive directors and senior management regularly review product range trends to assess and correct any key selection or product issues. Corrections to significant missed trends or poorer performing ranges are targeted for amendment, with alternative products being sourced within six months where deemed necessary.
Key suppliers and supply chain management NEXT relies on its supplier base to deliver products on time and to the quality standards it specifies. Failure to do so may result in an inability to service customer demand or adversely affect NEXT's reputation.	NEXT continually seeks ways to develop its supplier base so as to reduce over reliance on individual suppliers of products and services, and maintain the quality and competitiveness of its offer. The Group's risk assessment procedures for key suppliers identify alternatives and develop contingency plans in the event of key supplier failure.
Changes in global manufacturing capacity and costs may impact on profit margins.	Existing and new sources of product supply are developed in conjunction with NEXT Sourcing, external agents and/or direct suppliers.
Non-compliance by suppliers with the NEXT Code of Practice may increase reputational risk.	NEXT carries out regular inspections of its suppliers' operations to ensure compliance with the standards set out in this Code; covering production methods, employee working conditions, quality control and inspection processes. Further details can be found on page 49. NEXT monitors and reviews the financial, political and geographical aspects of its supplier base to identify any factors that may affect the continuity or quality of supply of its products. NEXT also monitors and reviews stock availability on an ongoing basis to ensure that issues are identified and appropriate action is taken where any issues are impacting service delivery to customers.
Warehousing and distribution NEXT regularly reviews the warehousing and distribution operations that support the business. Risks include business interruption due to physical damage, access restrictions, breakdowns, capacity shortages, IT systems failure (see next page), inefficient processes and third-party failures.	Planning processes are in place to ensure there is sufficient warehouse handling capacity for expected future business volumes over the short and longer terms. Service levels, warehouse handling, inbound logistics and delivery costs are monitored continuously to ensure goods are delivered to our warehouses, Retail stores and Online customers in a timely and cost efficient manner. During the year we reviewed our warehousing and logistics operations to ensure that we proactively manage changes in our customer demand between Retail stores and Online customers. Business continuity plans and insurance are in place to mitigate the impact of business interruption.

Description of principal risk or uncertainty	How the risk or uncertainty is managed or mitigated
Customer experience NEXT's performance depends on the recruitment and retention of customers, and on its ability to drive and service customer demand. This includes having an attractive, functional and reliable website, effective call centres, operating successful marketing strategies, and providing both Retail and Online customers with service levels that meet or exceed their expectations.	Market research and customer feedback is used to assess customer opinions and satisfaction levels to help to ensure that staff remain focused on delivering excellent customer service. The Group continuously monitors website and call centre operations that support the business to ensure that there is sufficient capacity to handle volumes. Call centre employees receive comprehensive and relevant training on an ongoing basis, targeting our service to be at its highest possible levels. The Company is continuing to invest in the development of our UK and overseas websites. These developments are formally appraised and are designed to further improve the online customer experience.
Retail store network NEXT Retail's performance depends on profitably developing the trading space of the store network. The successful development of new stores depends on a number of factors including the identification of suitable properties, obtaining planning permissions and the negotiation of acceptable lease terms. Prime retail sites will generally remain in demand, and increased competition for these can result in higher future rents.	The predominantly leased store portfolio is actively managed by senior management, with openings, refits and closures based on store profitability and cash payback criteria. Regular reviews of lease expiry and break clauses are undertaken to identify opportunities for exit or renegotiation of commitments. Profiling of the Group's lease commitments is also regularly reviewed by the Board. NEXT will continue to invest in new space where its financial criteria are met, and will renew and refurbish its existing portfolio when appropriate.
Information security, business continuity and cyber risk NEXT is dependent upon the continued availability and integrity of its IT systems, which must record and process substantial volumes of data and conduct inventory management accurately and quickly. The Group's systems require continuous enhancement and investment to prevent obsolescence and maintain responsiveness. The threat of unauthorised or malicious attack is an ongoing risk, the nature of which is constantly evolving and becoming increasingly sophisticated.	Systems' vulnerability and penetration testing is carried out regularly to ensure that data is protected from corruption or unauthorised access or use. Critical systems are reviewed and tested periodically to ensure they have backup facilities and business continuity plans in place; these are updated on an ongoing basis to reflect business risk. Major incident simulations and business continuity tests are carried out periodically. IT risks are also managed through the application of internal policies and change management procedures, contractual service level agreements with third-party suppliers, and IT capacity management. The Audit Committee and Board received updates and agreed appropriate actions relating to cyber risk and business continuity during the year (see page 42). As the nature of cyber attack risk is constantly changing and becoming ever more sophisticated, NEXT continually works towards improving mitigating controls and supports significant resource and investment in this area, including employee data security awareness training (see page 42 regarding the independent cyber risk follow up review undertaken during the year).

Strategic Report

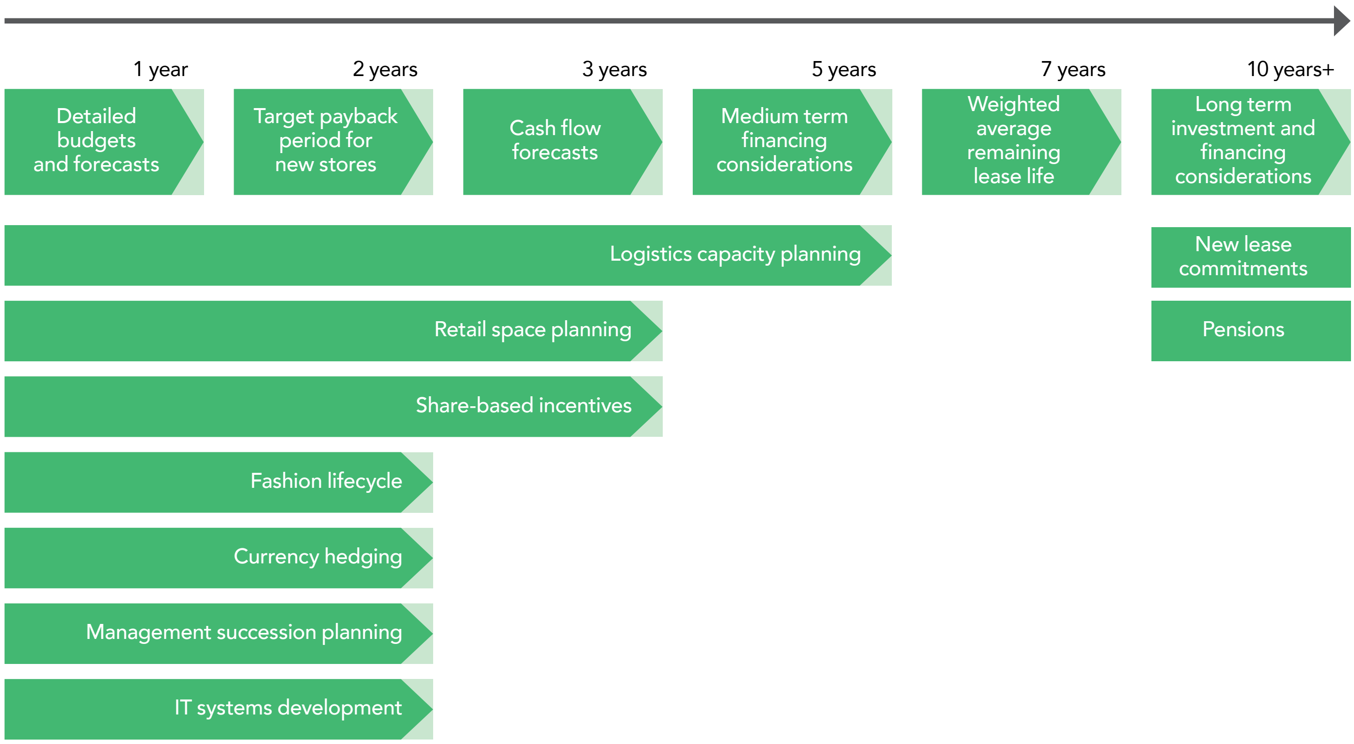
Description of principal risk or uncertainty	How the risk or uncertainty is managed or mitigated
Financial, treasury, liquidity and credit risks	
The main financial risks are the availability of funds to meet business needs, default by counterparties to financial transactions, the effect of fluctuations in foreign exchange rates and interest rates, and compliance with regulation.	NEXT operates a centralised treasury function which is responsible for managing its liquidity, interest and foreign currency risks. The Group's treasury function operates under a Board approved policy. This includes approved counterparty and other limits which are designed to mitigate NEXT's exposure to financial risk. Further details of the Group's treasury operations are given in Note 24 of the financial statements.
NEXT has a longstanding policy of returning surplus cash to shareholders through share buybacks and special dividends, whilst maintaining an appropriate level of debt. Adequate financing facilities are therefore required to support the operational needs of the business.	NEXT has adequate medium and long term financing in place to support its business operations, and the Group's cash position and forecasts are regularly monitored and reported to the Board.
NEXT is also exposed to credit risk, particularly in respect of its Online customer receivables, which at £1.1bn represents the largest item on the Group Balance Sheet.	Rigorous procedures are in place with regard to the Group's credit account customers, including the use of external credit reference agencies and applying set risk criteria before acceptance. These procedures are regularly reviewed and updated. The Audit Committee received a formal update regarding the customer credit business during the year.

Viability Assessment

The directors have assessed the prospects of the Group by reference to its current financial position, its recent and historical financial performance and forecasts, and the principal risks and mitigating factors described above. 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 track record of consistently generating profits and cash, which is expected to continue. The directors review cash flow projections on a regular basis. 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, both before and after anticipated shareholder distributions. In addition, the likelihood and impact of severe but plausible scenarios in relation to the principal risks were assessed, as described on pages 42 to 46, 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 threaten the viability of the business over the three year 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 upon. 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 this period.

Strategic Report

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

Employees

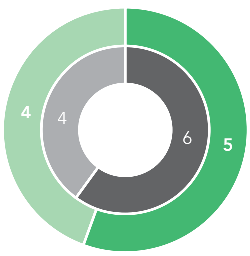
NEXT's employees are integral to achieving its business objectives and the Company actively takes steps to attract and retain the right people to work at every level throughout the business. NEXT has established policies for recruitment, training and development of personnel and is committed to achieving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

Equal opportunities and diversity

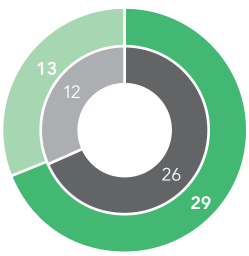
NEXT is an equal opportunities employer and will continue to ensure that it offers career opportunities without discrimination. Full consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities and in accordance with relevant legislation. The Group continues the employment wherever possible of any person who becomes disabled during their employment, providing assistance and modifications where possible. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees. Further details of our diversity policy are included in the Nomination Committee Report on page 66.

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

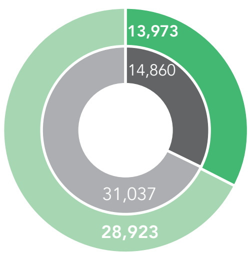
Directors of NEXT plc



Subsidiary directors and other senior managers



Total employees



2018
- Male
- Female

2017
- Male
- Female

Gender pay

NEXT published its first Gender Pay Report in March 2018. The report can be found at www.nextplc.co.uk.

Training and development

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

Employee communication

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

Employee share ownership

Approximately 10,000 employees held options or awards in respect of 6.1m shares in NEXT at the end of January 2018, being 4.2% of the total shares then in issue. Its 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 4.8m 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 18 of the financial statements. At January 2018, there were 878 (2017: 943) active members in the defined benefit section of the 2013 NEXT Group Pension Plan and 2,977 (2017: 2,949) UK active members of the defined contribution section. In addition, 15,413 employees (2017: 15,033) participate in the Group's auto enrolment defined contribution scheme.

Taxation

NEXT manages its tax affairs responsibly and proactively to comply with tax legislation. We seek to build solid and constructive working relationships with all tax authorities. NEXT's UK tax policy can be found at www.nextplc.co.uk.

Social, Community and Human Rights

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

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

A third-party provides independent assurance on the Group's Corporate Responsibility Report which is published on our corporate website (www.nextplc.co.uk). NEXT is also a member of the FTSE4Good Index Series.

Human rights

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

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

NEXT takes seriously any allegation of human rights abuse in all its forms and will not tolerate human rights abuse anywhere in its operations. We have developed training and awareness initiatives for our employees, suppliers, business partners and service providers which were first implemented in 2017.

For further information, refer to the NEXT Human Rights and Modern Slavery Policy and the latest Corporate Responsibility Report at www.nextplc.co.uk. In line with the requirements of the Modern Slavery Act 2015, our second annual modern slavery statement will be published on our corporate website during 2018.

Suppliers

NEXT continues to focus on its supply chain as it recognises that there is potential for human rights issues to arise in this area. In common with other retailers, NEXT's product supply chain is both diverse and dynamic. During the year, NEXT products were sourced from over 1,500 direct and indirect (i.e. sourced via agents) suppliers, with products manufactured in around 40 countries. The challenge of trading ethically and acting responsibly towards the workers in our own and our suppliers' factories is a key priority which is managed by the NEXT Code of Practice (COP) Team, made up of 47 employees based in key sourcing locations.

NEXT's COP programme is based on the Ethical Trading Initiative base code and international labour conventions and has nine key principles that stipulate the minimum standards with which suppliers are required to comply. The COP team continue to deliver training to our product teams, other relevant employees and to third parties providing NEXT product, ensuring they understand the vital role they play in our ethical trading programme.

The COP team carried out over 1,900 factory audits in 2017/18 and work directly with suppliers to identify and address causes of non-compliance. NEXT also recognises the importance of partnership and collaboration, both with our suppliers and with other brands and organisations, to work to resolve some of the more complex problems which we are unable to solve alone. Traceability and transparency of our suppliers' factories is an important part of NEXT's overall approach to corporate responsibility. We have published a list of our suppliers' manufacturing sites producing NEXT branded products at www.nextplc.co.uk.

Customers

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

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

Health and safety

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

Strategic Report

Supporting charity and community

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

	2018 £000	2017 £000
Registered charities	**1,065**	1,020
Individual requests, local and national groups and organisations	**13**	46
Commercial support	**92**	103

This support was supplemented by the following additional activities:

	2018 £000	2017 £000
NEXT charity events	**221**	53
Gifts in kind – product donations	**1,836**	1,730
Charity linked sales	**372**	441
Employee fundraising	**52**	55

Political donations

No donations were made for political purposes (2017: £nil).

Environmental Matters

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

Focus	Five year target: 2016/17 to 2020/21	2017/18 progress
Energy use and emissions from stores, warehouses, distribution centres and offices.	Electricity consumption: -10% reduction in kg CO_2e/m^2 over the five year period.	-31%* reduction in kg CO_2e/m^2.
Waste created in stores, warehouses, distribution centres and offices.	To divert more than 95% of operational waste from landfill.	90% of operational waste diverted from landfill.

* a reduction of 22% is attributable to the improvement in the emission factor provided by DEFRA.

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:

	2018 Tonnes of CO_2 equivalent	2017 Tonnes of CO_2 equivalent
Combustion of fuel & operation of facilities (Scope 1)	**48,157**	52,901
Electricity, heat, steam and cooling purchased for own use (Scope 2)	**89,687**	109,584
Total Scope 1 and Scope 2 emissions	**137,844**	162,485
Intensity metric: tonnes of CO_2e per £m of sales	**33.48**	39.28

Further information regarding environmental matters will be published in our Corporate Responsibility Report issued later in 2018.

Find out more on our website by visiting www.nextplc.co.uk/corporate-responsibility

Methodology

The methodology used to calculate our emissions is based on operational control in accordance with 2017 BEIS/DEFRA using Guidelines WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2016 Scope 2 Guidelines.

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

On behalf of the Board

A James

Amanda James
Director

23 March 2018

GOVERNANCE

Directors' Report
Directors and Officers

Michael Roney
CHAIRMAN

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

APPOINTED TO THE BOARD
February 2017

COMMITTEE MEMBERSHIP
Remuneration and
Nomination (Chairman)

Lord Wolfson of Aspley Guise
CHIEF EXECUTIVE
EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD
February 1997

Amanda James
GROUP FINANCE DIRECTOR
EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD
April 2015

Michael Law
GROUP OPERATIONS DIRECTOR
EXECUTIVE DIRECTOR (to 17 May 2018)

Michael joined the Group in 1995 as Call Centre Manager for the NEXT Directory. Michael was appointed Call Centre Director in 2003 and in 2006 became responsible for Group IT. In 2010 he was appointed Group Operations Director, adding Warehousing and Logistics to his portfolio. Michael is now responsible for all Systems, Warehousing, Logistics and Call Centres within the Group.

Michael will step down from the Board on 17 May, immediately after the 2018 AGM.

APPOINTED TO THE BOARD
July 2013

Jane Shields
GROUP SALES AND MARKETING DIRECTOR
EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD
July 2013

Richard Papp
GROUP MERCHANDISE AND OPERATIONS DIRECTOR
EXECUTIVE DIRECTOR (from 14 May 2018)

Richard joined NEXT in 1991 as a Merchandiser. Richard worked his way through management, becoming Menswear Product Director in 2001. In 2005 he gained valuable experience in a similar role at another retailer. Richard returned to NEXT in 2006 and has since that time been Group Merchandise Director, responsible for NEXT's Merchandising function, Product Systems, International Franchise, and Clearance operations.

WILL BE APPOINTED TO THE BOARD
May 2018

Francis Salway
SENIOR INDEPENDENT
NON-EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD
June 2010

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

Jonathan Bewes
INDEPENDENT
NON-EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD
October 2016

COMMITTEE MEMBERSHIP
Audit (Chairman), Remuneration and Nomination

Company Secretary

Seonna Anderson

Past Directors

John Barton
CHAIRMAN

APPOINTED TO THE BOARD
February 2002

RETIRED FROM THE BOARD
1 August 2017

Steve Barber
INDEPENDENT
NON-EXECUTIVE DIRECTOR

APPOINTED TO THE BOARD
June 2007

RETIRED FROM THE BOARD
18 May 2017

Caroline Goodall
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Caroline is also a Trustee of the National Trust and Chair of its Audit Committee. She was previously an independent non-executive on the Partnership Board of the accountancy firm Grant Thornton UK LLP for seven years until June 2017 and was a non-executive director of SVG Capital plc, a FTSE 250 listed private equity investor, from 2010 to October 2014. Prior to that, Caroline had over thirty years' experience in corporate finance and was a corporate finance partner at the international law firm Herbert Smith including five years as Head of the Global Corporate Division.

APPOINTED TO THE BOARD
January 2013

COMMITTEE MEMBERSHIP
Audit, Remuneration (Chairman) and Nomination

Dame Dianne Thompson
INDEPENDENT
NON-EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD
January 2015

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

Board Committees

Audit Committee
Steve Barber (Chairman to 18 May 2017)
Jonathan Bewes (Chairman from 18 May 2017)
Caroline Goodall
Francis Salway
Dame Dianne Thompson

Remuneration Committee
Caroline Goodall (Chairman)
Jonathan Bewes
Michael Roney
Francis Salway
Dame Dianne Thompson

Nomination Committee
Michael Roney (Chairman)
Jonathan Bewes
Caroline Goodall
Francis Salway
Dame Dianne Thompson

Directors' Report

Disclosures required under the 2013 amendment to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of employee matters (including the employment, training and advancement of disabled persons), future developments, political donations and greenhouse gas emissions are given in the Strategic Report. Information on financial instruments and the use of derivatives is given in Notes 24 to 27 of the financial statements.

Annual General Meeting & Other Matters

Notice of the Annual General Meeting (AGM) is on pages 154 to 159 and includes the following business:

Dividends

The directors recommend that a final dividend of 105p per share be paid on 1 August 2018 to shareholders on the register of members at close of business on 6 July 2018. This resolution relates only to the final dividend. The directors may decide to pay special dividends in line with the Company's policy of returning surplus cash generated from operations to shareholders via special dividends or share buybacks. Any such special dividends will be paid by the directors as interim dividends. The announcement of any dividend will clearly indicate whether it is a special dividend or not.

The Trustee of the NEXT Employee Share Ownership Trust (ESOT) has waived dividends paid in the year on the shares held by it, refer to Note 23 of the financial statements.

Directors

Directors' biographies are set out on pages 54 and 55.

Michael Law, Group Operations Director, will step down from the Board at the close of the 2018 AGM, prior to retiring from the business in July 2018. Michael, accordingly, will not stand for re-election as a director at the AGM.

In February 2018, the Company announced that Richard Papp will succeed Michael Law on the Board and will be appointed as an executive director with effect from 14 May 2018. Richard will stand for election at the 2018 AGM and, subject to the outcome of that process, will become Group Merchandise and Operations Director. Richard has been with NEXT for over 25 years and has been Group Merchandise Director since 2006, responsible for NEXT's Merchandising function, Product Systems, International Franchise, and Clearance operations. He has worked extremely closely with our Warehousing, Logistics and Systems teams to develop our online platform and is perfectly placed to lead the continued development of the Group's operations.

The UK Corporate Governance Code (the "Code") recommends that all directors of FTSE companies stand for election every year and all members of the Board, other than Michael Law, will do so at this year's AGM. Each of the directors standing for re-election has undergone performance evaluation and has demonstrated that they remain committed to their role (including making sufficient time available for Board and Committee meetings and other duties as required) and continue to be an effective and valuable member of the Board. The Board is satisfied that each non-executive director offering themselves for 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.

The interests of the directors who held office at 27 January 2018 and their connected persons are shown in the Remuneration Report on page 80.

Auditor

The Company is required to appoint auditors at each general meeting at which its report and accounts are presented to shareholders. PricewaterhouseCoopers LLP, having been first appointed at the 2017 AGM following a tender process during 2016, has expressed its willingness to continue in office and its re-appointment will be proposed at the 2018 AGM. This resolution also proposes that the auditor's remuneration be determined by the directors. In practice, the Audit Committee will consider and approve the audit fees on behalf of the Board in accordance with the Competition and Markets Authority Audit Order.

Disclosure of information to the auditor

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

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

Authority to allot shares

Under the 2006 Act, the directors may only allot shares or grant rights to subscribe for, or convert any security into, shares if authorised to do so by shareholders in general meeting. The authority conferred on the directors at last year's AGM under Section 551 of the 2006 Act expires on the date of the forthcoming AGM and ordinary resolution 14 seeks a new authority to allow the directors to allot ordinary shares up to a maximum nominal amount of £4,700,000, representing approximately one third of the Company's existing issued share capital as at 22 March 2018. In accordance with institutional guidelines, resolution 14 will also allow directors to allot further ordinary shares, in connection with a pre-emptive offer by way of a rights issue, up to a total maximum nominal amount of £9,500,000, representing approximately two thirds of the Company's existing issued share capital as at that date. As at 22 March 2018 (being the latest practicable date prior to publication of this document) the Company's issued share capital amounted to £14,347,898 comprising 143,478,977 ordinary shares of 10 pence each, none of which are held in treasury. The directors have no present intention of exercising this authority which will expire at the conclusion of the AGM in 2019 or, if earlier, 17 August 2019.

Authority to disapply pre-emption rights

Special resolution 15 will, if passed, renew the directors' authority pursuant to Sections 570 to 573 of the 2006 Act 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 £717,000, representing 5% of the issued ordinary share capital of the Company as at 22 March 2018 (excluding treasury shares). This authority also allows the directors, within the same aggregate limit, to sell for cash, shares that may be held by the Company in treasury.

In March 2015, the Pre-Emption Group issued a revised Statement of Principles stating that an allotment of up to an additional 5% of the issued ordinary share capital of the Company may be made on a non pre-emptive basis if that allotment is 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. Special resolution 16 seeks this separate and additional authority.

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

The directors do not have any present intention of exercising this authority which will expire at the AGM in 2019 or, if earlier, 17 August 2019.

On-market purchase of 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 22 March 2018, NEXT has returned over £3.8bn to shareholders by way of share buybacks and over £3.3bn in dividends, of which £907m 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 £631m in capital expenditure to support and grow the business.

Special resolution 17 will renew the authority for the Company to make market purchases (as defined in Section 693 of the 2006 Act) of its ordinary shares of 10p each provided that:

a. the aggregate number of ordinary shares authorised to be purchased shall be the lesser of 21,521,000 ordinary shares of 10p each (being less than 15% of the issued share capital at 22 March 2018) and no more than 14.99% of the issued ordinary share capital outstanding at the date of the AGM, such limits to be reduced by the number of any shares to be purchased pursuant to special resolution 18: Off-market purchases of own shares, see below;

b. the payment per ordinary share is not less than 10p and is an amount not more than the higher of: (i) 105% of the average of the middle market price of the ordinary shares of the Company according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share of the Company and the highest current independent bid for an ordinary share of the Company as derived from the London Stock Exchange Trading system; and

c. the renewed authority will expire at the AGM in 2019 or, if earlier, 17 August 2019.

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

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

The Company has no warrants in issue in relation to its shares and no options to subscribe for its shares outstanding. Exercise of all outstanding employee share options and share awards will be satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 23 of the financial statements).

Directors' Report

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 2017 AGM up to 22 March 2018.
- Low share liquidity can often prevent the Company from purchasing sufficient numbers of shares on a single day without risk of affecting the prevailing market price. Contingent contracts enable the Company to purchase shares over time without risk of distorting the prevailing share price, and also spread the cash outflow.
- Contingent contracts entered into prior to any closed period allow the Company to take delivery of shares during these periods.
- Competitive tendering involving up to five banks is used which minimises the risk of hidden purchase costs. The pricing mechanism ensures the Company retains the benefit of declared and forecast dividends.
- The Company would also have the option to set a suspension price in individual contracts whereby they would automatically terminate if the Company's share price was to fall.

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

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

The principal features of the contracts are set out in the appendix to the Notice of the AGM. Copies of the agreements the Company proposes to enter into with any of the banks (the Programme Agreements) will be available for inspection at the registered office of the Company, and at the offices of Slaughter and May, One Bunhill Row, EC1Y 8YY during normal working hours from the date of the Notice of the AGM up to the date of the AGM and at the Meeting itself.

Notice of general meetings

The notice period required by the 2006 Act for general meetings of the Company is 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. However, the Company's AGM must always be held on at least 21 clear days' notice. At the AGM of the Company held in 2017, shareholders authorised the calling of general meetings other than an AGM on not less than 14 clear days' notice and it is proposed that this authority be renewed. The authority granted by special resolution 19, if passed, will be effective until the Company's AGM in 2019. In order to be able to call a general meeting on less than 21 clear days' notice, the Company will make electronic voting available to all shareholders for that meeting. The flexibility offered by this resolution will not be used as a matter of routine for such meetings, but only where the directors consider it appropriate, taking account of the business to be conducted at the meeting and the interests of the Company and its shareholders as a whole.

Recommendation

The Board are of the opinion that all resolutions which are to be proposed at the 2018 AGM will promote the success of the Company and are in the best interests of its shareholders as a whole and, accordingly, unanimously recommend that they vote in favour of the resolutions.

Share capital and major shareholders

Details of the Company's share capital are shown in Note 20 of the financial statements.

The Company was authorised by its shareholders at the 2017 AGM to purchase its own shares. During the year the Company purchased and cancelled 2,174,357 ordinary shares with a nominal value of 10p each (none of which were purchased off-market), at a cost of £106.1m and representing 1.5% of its issued share capital at the start of the year.

At the financial year end 27 January 2018, the Company had 144,882,205 shares in issue. Subsequent to the end of the financial year and before the start of the closed period, the Company purchased for cancellation 1,403,228 of its own shares at a cost of £69.1m. As at 22 March 2018 the number of shares in issue was 143,478,977.

As at 27 January 2018, 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 27 January 2018			
	No. of voting rights at date of notification	**% of voting rights at date of notification**	**Nature of holding**	**Date of notification**
FMR LLC (Fidelity)	17,638,953	11.99	Indirect interest	29 June 2017
BlackRock, Inc.	15,449,829	9.97	Indirect interest	8 January 2014
Invesco Limited	14,446,360	9.89	Indirect interest	4 January 2018
NEXT plc Employee Share Option Trust	4,484,874	3.05	Direct interest	8 May 2017

The following notification was received after 27 January 2018 up to 22 March 2018:

	No. of voting rights at date of notification	**% of voting rights at date of notification**	**Nature of holding**	**Date of notification**
Invesco Limited	14,391,788	10.03	Indirect interest	12 March 2018

Directors' Report

Additional information

Shareholder and voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting every member present in person and every duly appointed proxy shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held or represented. It is intended that voting at the 2018 AGM will be on a poll. The Notice of Meeting on pages 154 to 159 specifies deadlines for exercising voting rights.

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

The Company's Articles may only be amended by a special resolution at a general meeting. Directors are elected or re-elected by ordinary resolution at a general meeting; the Board may appoint a director but anyone so appointed must be elected by ordinary resolution at the next general meeting. Under the Articles, directors retire and may offer themselves for re-election at a general meeting at least every three years. However, in line with the provisions of the UK Corporate Governance Code, all directors will stand for re-election at the 2018 AGM other than Michael Law (refer to page 66).

Change of control

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

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

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

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

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

Corporate governance

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

The following disclosures are required under Listing Rule 9.8.4 R:

Publication of unaudited financial information	In January 2018, NEXT published a Profit Before Tax (PBT) forecast for the year to January 2018 of £718m to £732m. Actual PBT for the period was £726.1m.
Shareholder waivers of dividends	The NEXT Employee Share Ownership Trust waived its rights to receive dividends during the year.

No further LR 9.8.4 disclosures are required.

By order of the Board

A James

Amanda James
Group Finance Director

23 March 2018

Directors' Responsibilities Statement

Directors' Responsibilities

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

As a listed company within the European Union, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The directors have elected to prepare the Parent Company financial statements in accordance with the Companies Act 2006 and UK Accounting Standard FRS 101 *"Reduced disclosure framework"*.

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 the Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- in respect of the Group financial statements, provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- in respect of the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless they consider that to be inappropriate.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibilities statement

We confirm that to the best of our knowledge:

a. the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and results of the Group;

b. the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face;

c. the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and

d. the Parent Company financial statements, which have been prepared in accordance with UK Accounting Standard FRS 101 *"Reduced disclosure framework"*, give a true and fair view of the assets, liabilities, financial position and results of the Company.

On behalf of the Board

Lord Wolfson of Aspley Guise
Chief Executive

Amanda James
Group Finance Director

23 March 2018

Corporate Governance
Chairman's Introduction

Corporate governance, especially directors' duties, diversity and remuneration, has remained in the spotlight in 2017. The Board is very mindful of its responsibilities in this area and will continue to develop and refine its approach and practices.

The Board considers the culture at NEXT to be an essential ingredient in meeting our objective of delivering long term, sustainable returns to shareholders. We have a very hands on executive team who work day-to-day with senior management to drive a clear focus on product quality and value, and on meeting or exceeding the expectations of our customers regarding their experience and satisfaction. Our directors and senior management promote NEXT's culture and standards throughout the business and lead by example to provide a strong corporate governance framework.

NEXT has a long history of creating shareholder value against the backdrop of challenging and changing external environments. This is the ultimate measure of our success and is supported by our strong corporate governance structure and an effective management team. In a challenging trading environment, we remain committed to a robust approach to governance which has served the business well.

Michael Roney
Chairman

23 March 2018

Compliance with UK Corporate Governance Code

The Company complied throughout the year under review with the provisions set out in the 2016 UK Corporate Governance Code (the "Code") which is the version of the Code that applies to its 2017/18 financial year. The sections below detail how the Company has complied with the Code, which is available from the Financial Reporting Council website at www.frc.org.uk. These disclosures are ordered into the sections as they appear in the Code.

Disclosures required by the Disclosure Guidance and Transparency Rules DTR 7.2.6, with regard to share capital are presented in the "Share capital and major shareholders" and "Additional information" sections of the Directors' Report on pages 60 and 61. Disclosures required by DTR 7.2.8 relating to diversity policy are presented in the Nomination Committee Report on page 66.

Directors' biographies and membership of Board Committees are set out on pages 54 and 55.

A. Leadership

A.1 Role of the Board

The Board is collectively responsible for the long term success of the Company and for setting and executing the business strategy.

The Board is responsible for providing effective leadership whilst delegating more detailed matters to its Committees and officers including the Chief Executive. The Board sets strategic priorities and oversees their delivery in a way that enables sustainable long term growth. The Board is responsible for setting and monitoring the Group's risk appetite and the system of risk management and internal control and for monitoring implementation of its policies by the Chief Executive. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has a formal schedule of matters reserved for it and holds regular meetings where it approves major decisions, including investments, treasury and dividend policies and significant items of capital expenditure. The Board is responsible for approving semi-annual Group budgets. Performance against budget is reported to the Board monthly and any substantial variances are explained. Forecasts for each half year are revised and reviewed monthly. Certain other important matters are subject to weekly or monthly reporting to the Board or Board Committee, including sales, treasury operations and capital expenditure programmes. Board papers including reports from the Chief Executive and other executive directors are circulated in advance of each Board meeting.

In addition, our executive directors drive forward operational business strategies by way of attendance at key trading meetings and working closely with our business areas on a day-to-day basis. This style of management serves to align with our risk management framework and facilitates senior management setting the tone from the top.

Management delegation

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

Attendance at Board and Committee meetings

The Board held ten formal meetings during the year, the Audit Committee held four meetings, the Remuneration Committee held five meetings and the Nomination Committee held one meeting. All meetings were fully attended by the relevant Board or Committee members.

The Board has appointed Committees to carry out certain of its duties, three of which are detailed below. Each of these is chaired by a different director and has written terms of reference which were last reviewed and updated in January 2018 and are available on our corporate website or on request.

Audit Committee

The Committee consists of the four independent non-executive directors and at least one member (Jonathan Bewes, the Committee Chairman) has recent and relevant financial experience. The Audit Committee Report on pages 67 to 70 describes the role and activities of the Committee.

Remuneration Committee

The Committee consists of the Chairman and all four of the independent non-executive directors and is chaired by Caroline Goodall. The Committee determines the remuneration of the executive directors in accordance with the Remuneration Policy and reviews the remuneration of senior management. Page 86 of the Remuneration Report summarises the role and activities of the Committee.

Nomination Committee

The Committee consists of the Chairman and all four of the independent non-executive directors. The Committee meets whenever necessary to consider succession planning for directors and other senior executives and to ensure that requisite skills and expertise are available to the Board to address future challenges and opportunities. The Nomination Committee Report on page 66 summarises the role and activities of the Committee and describes the Board appointment process and its approach to diversity.

A.2 Division of responsibilities

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

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

A.3 The Chairman

The role of Chairman is to lead the Board, ensuring it operates effectively and contains the right balance of skills and experience. He is also responsible for promoting a healthy culture of openness, challenge and scrutiny, and ensuring constructive relations between executive and non-executive directors.

Michael Roney succeeded John Barton as Chairman when he retired on 1 August 2017. Michael met the independence requirements set out in the UK Corporate Code on appointment. His other significant commitments are noted on page 54, and the Board considers that these are not a constraint on his agreed time commitment to the Company.

A.4 Non-executive directors

Francis Salway is our Senior Independent Director. Meetings of the non-executive directors without the executive directors being present are held at least annually, both with and without the Chairman.

B. Effectiveness

B.1 Composition of the Board

The Board currently includes four independent non-executive directors and the Chairman who all bring considerable knowledge, judgement and experience to the Group. As is best practice, we continually assess and refresh the Board to ensure we maintain an appropriate balance of skills and experience and the Board has a good record of recruiting new non-executive directors at regular intervals to achieve appropriate rotation and continuity.

There were a number of changes to the Board during the year. After fifteen years on the Board, John Barton retired as Chairman on 1 August 2017 and was succeeded at that time by Michael Roney. Michael had been appointed on 14 February 2017 as a non-executive director, Deputy Chairman and Chairman Designate.

Steve Barber stepped down from the Board at the end of the 2017 AGM after serving on the Board for ten years. At that time, Jonathan Bewes succeeded him as Chairman of the Audit Committee.

The Board also appointed Richard Papp as an executive director with effect from 14 May 2018. Richard will succeed Michael Law when he steps down from the Board at the end of the 2018 AGM. Further details about his appointment are provided in the Nomination Committee Report on page 66.

Francis Salway is our longest serving non-executive director, having first been elected at the 2011 AGM. The Code requires that any term beyond six years for a non-executive director should be subject to a particularly rigorous review, and should take into account the need for progressive refreshing of the Board. After giving thorough consideration to the matter, the Board consider that Francis Salway's independence, skills and experience allow him to continue to make a very effective contribution as a non-executive director and Senior Independent Director.

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

Corporate Governance

B.2 Appointments to the Board

For information on the procedure for appointment of new directors to the Board, and the role of the Nomination Committee in this process, refer to the Nomination Committee Report on page 66.

B.3 Commitment

Following the Board evaluation process, detailed further below, the Board is satisfied that each of the directors is able to allocate sufficient time to the Company to discharge their responsibilities effectively. No executive director holds any non-executive directorships outside the Group.

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

B.4 Development

On joining the Board, new members receive a personalised induction, tailored to their experience, background and understanding of the Group's operations. Individual training and development needs are reviewed as part of the annual Board evaluation process and training is provided where 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 issues, with visits to stores and warehouse operations organised periodically to assist with directors' understanding of the operational aspects of the business.

B.5 Information and support

There is a regular flow of written and oral 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.

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 86.

B.6 Evaluation

This year an internal evaluation of the Board and Committees was completed with the process being facilitated by the Company Secretary. The review covered all aspects of the effectiveness of the Board and its Committees including composition, experience, dynamics, the Chairman's leadership, and the Board's role and responsibilities with particular regard to strategy, oversight of risk and succession planning. All directors continue to be of the opinion that the Board and its Committees were functioning effectively and that the processes underpinning the Board's effectiveness remained appropriate.

An externally facilitated review was carried out in the 2015/16 financial year by Independent Audit Limited. This review highlighted that the Board dynamics were positive and constructive, with a strong focus on shareholder interests and that the non-executives have a broad range of skills and experience and a good degree of commitment.

The Board intends to conduct the next externally facilitated review during 2018/19, in line with the Code's recommendation that one is conducted every three years.

The Senior Independent Director leads the appraisal of the performance of the Chairman through discussions with all the directors individually and, together with the Chairman, appraises 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.

B.7 Re-election

The Company's Articles of Association require directors to submit themselves for re-election by shareholders at least once every three years. However, the Board has determined that all directors will stand for re-election or election at each AGM in accordance with the Code, with the exception of Michael Law who will be stepping down from the Board at the close of the 2018 AGM.

C. Accountability

C.1 Financial and business reporting

Please refer to:

- page 61 for the Board's statement on the Annual Report and Accounts being fair, balanced and understandable;
- page 99 for details of the Independent Auditor's responsibilities; and
- pages 38 and 39 of the Strategic Report for an explanation of the Company's business model and strategy for delivering the objectives of the Company.

Going concern and viability assessment

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report, which also describes the Group's financial position, cash flows and borrowing facilities. Further information on these areas is detailed in the financial statements. Information on the Group's financial management objectives, and how derivative instruments are used to hedge its capital, credit and liquidity risks is provided in Note 24 of the financial statements.

The directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements. The directors have also assessed the prospects of the Company over a three year period. Further details of the viability assessment are provided on page 47.

C.2 Risk management and internal control

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

The Board has carried out a robust assessment of the principal risks facing the Company and has also conducted an annual review of the effectiveness of the systems of internal control during the year. Please refer to page 42 in the Strategic Report for further information. Risk management and internal control is a continuous process and has been considered by the Board on a regular basis throughout the year. This includes identifying and evaluating principal risks, determining control strategies and considering how they may impact on the achievement of the business objectives. The Board promotes the development of a strong control culture within the business. The Audit Committee regularly reviews strategic and operational risk, and has reviewed the principal risks (described on pages 43 to 46) and the associated controls and mitigating factors. The Audit Committee discusses these risks with the relevant directors and senior management both at Committee meetings and via other face to face meetings held during the year where required.

The Board considers that the Group's management structure and continuous monitoring of key performance indicators provide the opportunity to identify promptly any material areas of concern. Business continuity plans, procedures manuals and codes of conduct are maintained in respect of specific major risk areas and business processes. Through these measures 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 requirements for finance teams throughout the Group ensures that the Group's accounting policies are clearly established and consistently applied. Information is appropriately reviewed and reconciled as part of the reporting process and the use of a standard reporting package by all entities in the Group ensures that information is presented consistently to facilitate the production of the consolidated financial statements.

C.3 Audit Committee and auditors

For further information on the Company's compliance with the Code provision relating to the Audit Committee and auditors, please refer to the Audit Committee Report on pages 69 and 70.

D. Remuneration

For further information on the Company's compliance with the Code provision relating to remuneration, please refer to the Remuneration Report on pages 71 to 87.

E. Relations with shareholders

E.1 Dialogue with shareholders

The Company actively engages with investors and the Chief Executive and Group Finance Director are involved in regular one-to-one meetings, roadshows and conferences with institutional investors. During the year a large number of formal investor meetings were held, supplemented by many other calls and meetings which Lord Wolfson and Amanda James undertook. There is also regular communication with institutional investors on key business issues.

The Board communicates with its shareholders in respect of the Group's business activities through its Annual Report, yearly and half yearly announcements and other regular trading statements. Full year and other public announcements are presented in a consistent format with a particular focus on making the presentations as meaningful, understandable and comparable as possible. This information is also made publicly available via our corporate website (www.nextplc.co.uk).

The Company's largest shareholders are invited to the annual and half year results presentations, at which executive and non-executive directors are present. Non-executive directors attend other meetings with shareholders if requested. Our shareholder views are also communicated to the Board through regular reports of shareholder feedback and statements made by representative associations. Whilst the Board recognises that it is primarily accountable to the Company's shareholders, the views of other providers of capital are also considered.

The Board takes care not to disseminate information of a share price sensitive nature which is not available to the market as a whole.

E.2 Constructive use of the Annual General Meeting

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

Other disclosures

Directors' conflicts of interest

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

Nomination Committee Report

Membership and meetings

The composition of the Nomination Committee is described on page 55; Lord Wolfson is also invited to attend meetings. The Committee held one formal meeting during the year as well as regular informal discussions on succession plans and new appointments to the Board.

Committee activities

The Committee's roles and responsibilities are covered in its Terms of Reference, which were last reviewed in January 2018. A copy of the Terms of Reference is available on our corporate website (www.nextplc.co.uk). Annual evaluation of the Nomination Committee's performance is undertaken as part of the Board evaluation process; further details are included on page 64.

Board appointments process

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

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

New Board appointments

In February 2018, the Company announced that Michael Law will step down from the Board at the close of the 2018 AGM, prior to retiring from the business in July 2018. At the same time, we also announced that Richard Papp would be appointed as an executive director with effect from 14 May 2018. NEXT has a good track record of internal promotions to the Board and has not made an external appointment of an executive director for over 29 years. Richard will stand for election at the 2018 AGM and, subject to the outcome of that process, will become Group Merchandise and Operations Director with effect from the end of the AGM. Richard has been with NEXT for 25 years. He joined the Group in 1991 as a Merchandiser, becoming a Merchandise Manager in 1996 and was promoted to Menswear Product Director in 2001. In 2005 he gained valuable experience in a similar role at another retailer, returning to NEXT in 2006 to take up the role of Group Merchandise Director. In this role he is responsible for NEXT's Merchandising function, Product Systems, International Franchise, and Clearance operations. He has worked extremely closely with our Warehousing, Logistics and Systems teams to develop our online platform and is perfectly placed to lead the continued development of the Group's operations.

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 and 47% of our senior leadership team. NEXT was ranked first in the 2017 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 48.

Audit Committee Report
Chairman's Introduction

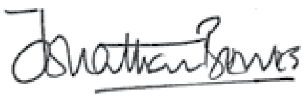
This is my first report as Chairman of the Audit Committee. I joined the Board in October 2016 and became Chairman of the Committee in May 2017. My priority since then has been to invest time in visiting areas of the business, meeting with NEXT management teams and understanding the risk management framework and internal controls of the business.

During the year the Audit Committee has continued to assist the Board in discharging its responsibilities with regard to financial reporting, controls, internal audit and external audit. It has reviewed and challenged management on the robustness and effectiveness of internal controls and risk management systems, ensuring that it discusses key matters directly with the relevant senior management where necessary. In particular, this year the Committee has continued to pay attention to data and cyber security; good progress is being made in identifying and managing these risks.

Following an audit tender during 2016 and the appointment at the 2017 AGM of PriceWaterhouseCoopers LLP (PwC), the Committee oversaw a smooth transition from the previous auditor Ernst & Young LLP. We are pleased with the professional and effective delivery of the first year external audit by PwC.

The significant activities of the Committee during the year are set out below.

Finally, I should also like to thank the management team at NEXT and all Audit Committee members for their work and support during the year.



Jonathan Bewes
Chairman of the Audit Committee

23 March 2018

Membership and meetings

The composition of the Committee is described on page 55. The Committee's wide range of financial and commercial skills and experience serves to provide the necessary expertise and knowledge required for the efficient and robust working of the Committee. The Audit Committee Chairman, a Chartered Accountant, possesses recent and relevant financial experience and the Committee as a whole continues to have competence relevant to the Retail sector.

The Committee holds regular, structured meetings and consults with external auditors and senior management, including internal audit, where appropriate. Audit Committee members' attendance is detailed on page 63. In addition, the Group Finance Director attended all of this year's meetings. The Committee frequently requests that executive directors and senior managers attend meetings in order to reinforce a strong culture of risk management and to keep the Committee up to date with events in the business.

Committee activities

The Committee's roles and responsibilities are covered in its Terms of Reference, which were last reviewed in January 2018. A copy of the Terms of Reference is available on our corporate website (www.nextplc.co.uk). The Committee's main activities during the financial year are described in the following sections.

Review of financial statements

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

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

a. Online customer receivables and related provisions for doubtful debts. These, at £1.1bn, represent the largest asset class on the Group's Balance Sheet.

   Based on detailed reports and through discussions with management and the external auditor, the Committee reviewed and assessed the basis and level of provisions (£138.7m as disclosed in Note 11 of the financial statements) and their sensitivity and is satisfied that the judgements made were reasonable, consistent with the prior year and appropriate.

Audit Committee Report

b. Pension scheme funding, accounting and actuarial reports. Prepared in accordance with International Accounting Standards, the Group's Balance Sheet shows a net surplus of £106.2m, comprised of £936.5m assets and £830.3m liabilities. This compares with a net surplus of £62.9m in the previous year.

   The Committee reviewed the actuarial assumptions underlying the calculations and was satisfied that they are reasonable. They are highly sensitive to small changes, particularly in respect of discount rates and inflation, and are not intended to reflect the full cost of a fully funded pension buyout (refer to Note 18 of the financial statements).

c. 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. Interest rate swap arrangements are used to reduce the Group's exposure to changes in interest rates.

   The Committee discussed the systems and processes in relation to the valuation and accounting treatment of such 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.

d. Inventory valuation. The Committee reviewed and agreed the methodology for calculating the net realisable values of inventories, which has been applied consistently.

e. Other accounting estimates. The Committee reviewed reports on the reasonableness and consistency of other estimates in the financial statements such as product return rates and property provisions. Through discussions with management and the external auditor, the Committee is satisfied that they remain appropriate and reasonable.

New accounting standards

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

a. IFRS 15 *"Revenue from contracts with customers"* will be effective for the year ending January 2019 onwards, and will not impact the Group's profit. The majority of the Group's sales are for standalone products made direct to customers at standard prices either in-store or online. Estimates are already made of anticipated returns and sales awaiting delivery to the customer. Certain income streams totalling around £30m currently netted off costs will be recognised as statutory revenue on transition to IFRS 15. The alternative performance measure *"total sales"* will not be adjusted for the impact of IFRS 15.

b. IFRS 9 *"Financial instruments"* will be effective for the year ending January 2019 onwards, the main impact being the impairment assessment methodology used to value our Online customer receivables. The Group has completed an assessment of the impact of IFRS 9 and it is expected that adoption will not have a material impact on the Consolidated Income Statement or Consolidated Balance Sheet. Process and modelling amendments will be implemented in line with the required effective date.

c. IFRS 16 *"Leases"* will be effective for the year ending January 2020 onwards and the impact on the financial statements will be significant. On the adoption of IFRS 16, lease agreements will give rise to both a right-of-use asset and a lease liability for future lease payables. The right-of-use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. There will be no impact on cash flows although the presentation of the Cash Flow Statement will change significantly.

   The Audit Committee received regular updates from the IFRS 16 project team to ensure all necessary steps to comply with the requirements of this standard were being taken. Significant work has been completed to date, including collection of relevant data, changes to IT systems and processes and the determination of relevant accounting policies.

   The Group intends to apply the fully retrospective approach on transition and will restate prior year comparatives. Further details are provided in the Group Accounting Policies section of the financial statements on page 112.

Viability statement and going concern

The Committee performed a detailed review of the Group's projected cash flows, facilities and covenants which covered a three year period (our viability assessment period). The proposed approach was discussed and agreed by the Committee in November 2017 and followed up in March 2018 by reviewing the Group's financial position and performance, budgets for 2018/19 and three year cash projections which were stress tested for different scenarios having regard to the principal risks faced by the business. The Committee reported to the Board that, in its view, the going concern assumption remains appropriate. In addition, as regards the Group's viability assessment, the directors confirmed 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 review period. Further details of this review are on page 47.

Risk management and internal control

The Committee regularly reviews the effectiveness of risk management, and during the year has reviewed the key risks together with the associated controls and mitigating factors. Further details regarding the risk framework and approach, together with details of NEXT's principal risks and risk assessment are on page 42.

Internal audit

The Committee reviewed the level of internal audit resource, experience and expertise, and believes that it is adequate for the size, structure and business risks of the Group and is supplemented with appropriate external resources where needed.

The Committee reviews and approves the scope of the internal audit work plan and ensures it is aligned to the key risks of the business. The Committee reviews the results of internal audit work performed and meets the Head of Internal Audit without management present to discuss the internal audit charter, resources and audit plans. The Head of Internal Audit attends all Audit Committee meetings and provides regular reports and updates both to the Committee and the Audit Committee Chairman. The Head of Internal Audit has direct access to all Committee members and is given the opportunity to meet the Committee Chairman and Committee members separately. During the year the Committee Chairman met the Head of Internal Audit twice to carry out formal reviews of the internal audit department's resources, approach, work performed and results. The Committee is satisfied that the internal audit function has continued to perform effectively during the year.

IT systems and cyber security

The operations of the Group are highly reliant on its IT systems. The Committee asked for regular updates from the IT and operations teams covering various aspects of IT and cyber security. In this rapidly moving area, there is inevitably a risk that a systems failure or cyber attack could cause significant business disruption. Substantial resources are therefore devoted to the development and security of the Group's IT systems. Cyber risk has been on the agenda at each Committee meeting this year. Following the previous year's independent cyber security review, a cyber risk strategic plan and an independent review update were discussed at Audit Committee meetings during the year. Please refer to more detail provided on page 42 of the principal risks section of the Strategic Report.

Other activities

During the year the Committee received reports and presentations from senior management on other significant activities of the Group, including regulatory compliance and developments, tax, modern slavery, corporate responsibility, suppliers and Code of Practice (ethical and responsible sourcing) and treasury activities. The Group's internal controls in areas such as finance, IT and product are also regularly reviewed by the Committee. Frequent updates are received on health and safety, risk management, business continuity, whistleblowing and corporate governance.

Whistleblowing

The Company's whistleblowing procedures ensure that arrangements are in place to enable employees, suppliers and other third parties to raise concerns about possible improprieties on a confidential basis. These were reviewed and updated in the year. The Committee requested that an update of reported issues is provided at each Audit Committee meeting and relevant follow up actions are discussed and agreed.

External auditor

Effectiveness

The Committee had discussions with the external auditor on audit planning, fees, accounting policies, audit findings and internal control. The external auditor attended all of this year's Committee meetings. The Committee assessed the effectiveness of the external audit through the review of audit plans, reports and conclusions and through discussions with management (both with and without the external auditor present) and with the external auditor (both with and without management present). As 2017/18 was PwC's first year as the Group's external auditor, the Committee also paid particular attention to ensuring that it was satisfied with the effectiveness and timeliness of audit planning, scope and deliverables, and that PwC had allowed sufficient time and resources to understand and assess the business, its key risks and controls. The Committee was satisfied that the audit was effective.

In addition, the Chairman of the Audit Committee regularly meets with the Audit Partner, Andrew Lyon, outside formal meetings. The Committee is satisfied that PwC possesses the skills and experience required to fulfil its duties effectively and efficiently.

Audit Committee Report

Independence and objectivity

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

Non-audit work carried out by the external auditor

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

The Committee's approval is required in advance for the provision of any non-audit services if the fee exceeds £100,000 for an individual assignment, or if the aggregate non-audit fees for the year exceed the lower of £150,000 or 20% of the audit fee. The Committee reviews audit and non-audit fees twice a year. 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 £0.6m and PwC's non-audit fees were £0.1m in total. In line with the above policy, appropriate advance approval was obtained from the Committee. Further details are provided in Note 3 of the financial statements.

In line with the new EU audit reform regulations which came into force for NEXT for the first time for the financial year 2017/18, the Audit Committee has set in place procedures to ensure only permitted non-audit services are provided by the auditor and these are in line with the above policy. These procedures will also ensure that the new cap on permitted non-audit services of 70% of the average Group audit fee paid on a rolling three year basis is not exceeded, even though this will not apply to NEXT until the financial year 2020/21.

External audit tender

The Audit Committee is responsible for recommending to the Board the appointment, re-appointment and removal of the external auditor.

As disclosed in last year's Audit Committee Report, and following changes to the UK Corporate Governance Code and EU Regulation requiring auditor tendering and rotation, during 2016 the Committee led a process to select a new external auditor. Details of the audit tender process were disclosed in the 2016/17 Audit Committee report. A resolution to propose the appointment of PwC was approved by shareholders at the 2017 AGM. The Committee has assessed and positively concluded on the effectiveness of the external audit; further details of this review are provided on page 69.

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 27 January 2018.

Remuneration Report

Contents

Remuneration compliance

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

Part 1: Annual Statement

As Chairman of the Remuneration Committee and on behalf of the Board, I am pleased to present our report on directors' remuneration for 2017/18.

At the 2017 AGM, shareholders endorsed a revised Remuneration Policy for the period to the 2020 AGM with 98.6% of votes cast in favour. This year, rather than reproduce in full the approved Policy, we have instead provided extracts from it. A copy of the complete Remuneration Policy can be found in our January 2017 Annual Report and Accounts which is available on our website.

Pay and performance outcome for 2017/18

Total remuneration

As outlined in our Strategic Report, the uncertain economic environment and changing consumer behaviour have meant that 2017/18 has been a year of change and challenge for NEXT. Given the stretching performance targets set by the Committee, total remuneration earned by the executive through the year was significantly lower versus the previous year.

The Committee's overarching goal is to ensure that the remuneration paid to senior executives is appropriate in both amount and structure, is directly linked to the Company's annual and long term performance and is aligned with the interests of shareholders. The current Remuneration Policy is designed to support this objective and the incentive pay outcomes for the executive directors for the year reflect NEXT's performance accordingly, with no annual bonus awards and no Long Term Incentive Plans vesting. Total annual remuneration earned for 2017/18 by Lord Wolfson was 37% lower than his total remuneration in 2016/17 (which itself was lower than that earned in 2015/16), and between 16% and 23% lower for the other executives.

The Committee considers that the current structure of the remuneration arrangements promote the long term success of the Company within an appropriate risk framework and are suitably aligned to enhancing shareholder value and the Company's objective of delivery of long term sustainable growth in total shareholder returns (TSR). Moreover, we believe our rigorous approach to target setting and linking pay to performance means that the actual remuneration earned by the executive directors continues to be a good reflection of their and NEXT's overall performance.

Annual bonus

As has been the case for many years at NEXT, annual bonus is calculated with reference to pre-tax EPS, including the impact of share buybacks. In the 2014 Remuneration Report we first set out the basis on which we would ensure 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.

The growth in pre-tax EPS in the year, as adjusted for special dividends, was below the target threshold and no bonus was earned for 2017/18, as was also the case in 2016/17. Details of the targets set for 2017/18 are on page 75.

Remuneration Report

Long Term Incentive Plan (LTIP)

LTIP awards are granted twice a year (each at 100% of base salary for executive directors) and during the year the Committee approved two grants. Two LTIP awards reached the end of their three year performance period and for both awards NEXT's TSR ranked below median (i.e. threshold) out of 21 companies in the comparator group, so these awards did not/will not pay out. Details of the comparator group are set out on page 83.

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.

Matters addressed during the year

The Committee has addressed the following matters this year:

Remuneration policy

The Committee gave full consideration to the operation of the Policy prior to proposing it to shareholders at the 2017 AGM and considers the level of support obtained to be a strong endorsement. During the year the Committee also reviewed the latest best practice guidance and considered the current remuneration landscape to identify if any potential amendments to the Policy may be required. The Committee concluded that the current Remuneration Policy continues to be the right one for the Company and its shareholders as it is aligned with the Company's annual and long term performance, with shareholder experience and with the Company's strategy, objectives and business model.

The Committee will keep under review the Financial Reporting Council consultation on a new UK Corporate Governance Code. As detailed on page 48 of the Strategic Report, NEXT has an employee forum made up of elected representatives from throughout the business who attend meetings at least twice a year with directors and senior managers. This forum enables and encourages open discussion on key business policies and practices.

Annual base salary review for 2018/19

The base salaries for the executive directors were increased in February 2018 by 2%, in line with the wider Company award. Lord Wolfson's annual base salary increases have been in line with the wider Company awards since 2009.

The Committee's typical approach to salary progression for those executive directors who are appointed to the Board from an internal senior managerial position is to award salary increases which are timed to reflect performance and contribution at Board level, rather than automatically applied immediately on promotion. Salary progression is therefore usually phased over a period of approximately 1 to 4 years after promotion to the Board, subject to proven performance and development during that period. As noted in my Statement last year, in light of the lower than expected 2016/17 profit and EPS outcome, the Committee decided to defer the planned increases in the base salaries of Michael Law and Jane Shields which would have represented the final stage in setting their pay levels at an appropriate level, reflecting excellent progression in their respective roles since their promotion to the Board in July 2013. The Committee also decided to moderate a further interim increase in the base salary of Amanda James, notwithstanding her strong performance in the role of Group Finance Director since her promotion to the Board in April 2015.

With regard to the salary review for 2018/19, given the continuing challenges in the fashion retailing sector, the Committee considered that it was appropriate to again defer any significant phased salary increases. However, during the year ahead the Committee will further review the salaries of the executive directors.

In February 2018, the Company announced that Michael Law will step down from the Board at the close of the 2018 AGM, prior to retiring from the business in July 2018. The Company also announced in the same statement that Richard Papp will be promoted from within the business and appointed as an executive director with effect from 14 May 2018. Richard will stand for election by shareholders at the 2018 AGM and, subject to the outcome of that process, will become Group Merchandise and Operations Director with effect from the end of the AGM. It is intended that Richard's salary is aligned with those of Jane Shields and Amanda James.

For information, the current executive directors' and CEO's salaries continue to be positioned below the median of comparable roles in other FTSE 100 companies in general and other FTSE 100 retailers more specifically. We believe this demonstrates our overall conservative approach to pay.

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;
- NEXT is predominantly a single business selling products through a number of channels under the NEXT and third-party brands. No significant earnings are derived from unrelated businesses and, therefore, a group metric such as EPS is logical and consistent with strategy;
- the primary financial objective of the Group is to deliver long term, sustainable returns to shareholders through a combination of growth in EPS and payment of cash dividends; and
- the use of EPS is complemented by the application of TSR and consideration of the general economic underpin condition for the LTIP.

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

Other activity during 2017/18

Further information about the work of the Committee can be found on page 86.

Context to the Committee's decisions

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

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

Executive directors receive a mix of annual and long term incentives which reward strong business and financial performance in line with the Company's strategy and which are measured against robust benchmarks. We place special importance on rewarding consistently strong performance over longer periods and, therefore, the balance of incentives is tilted towards the LTIP, with its 3 year performance period and 2 year holding period following vesting.

Pay and employment conditions elsewhere in the Group are considered to ensure that differences for executive directors are justified. Remuneration Policy does not conflict with the Company's approach to environmental, social and corporate governance matters and we believe the current arrangements do not encourage directors to take undue business risks.

Remuneration Report

Wider employee considerations

The Remuneration Committee is very mindful about remuneration arrangements across the Group, including performance-related pay which ensures that all employees have the potential to benefit from the success of NEXT. 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 middle management in Head Office as well as senior store staff and participation in our Sharesave scheme is open to all of our UK and Eire employees. Around 10,000 employees (circa 25% of our total UK and Eire employees) held options or awards in respect of 6.1 million shares in NEXT at the financial year end.

2018 AGM

The Committee considers that the simplicity and transparency of our remuneration arrangements and their consistent application have contributed positively to NEXT's strong management team continuing to deliver resilient performance in both benign and more challenging trading environments. I very much hope that shareholders will support the Committee's overall approach and, on behalf of the Committee, I commend our 2017/18 Directors' Annual Remuneration Report to you.

I look forward to receiving your support at the AGM where I will be pleased to respond to any questions shareholders may have on this report or in relation to any of the Committee's activities.

Caroline Goodall

Caroline Goodall
Chairman of the Remuneration Committee

23 March 2018

Part 2: Annual Remuneration Report

This Annual Remuneration Report comprises a number of sections:

Annual Remuneration Report

The Remuneration Committee presents the Annual Remuneration Report, which, together with the Chairman's introduction on pages 71 to 74, will be put to shareholders as an advisory (non-binding) vote at the Annual General Meeting to be held on 17 May 2018. 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 2017/18 and any significant changes in the way the policy will be implemented in 2018/19.

Element of remuneration	Policy implemented during 2017/18 and changes in 2018/19
Base salary	The base salary of the executive directors was increased by 2% in February 2018, in line with the wider Company award. It is intended that Richard Papp's salary is aligned with those of Jane Shields and Amanda James. As the salaries of Jane, Amanda and Richard remain below the planned level for someone of their experience and the benchmark median, the Company will further review their salaries during the year ahead (with a view to implementing the planned final instalments of their increases). The base salaries for the executive directors from February 2018 are:

£000	2018/19	2017/18
Lord Wolfson	**789**	773
Amanda James	**425**	416
Michael Law	**425**	416
Jane Shields	**425**	416

Element of remuneration	Policy implemented during 2017/18 and changes in 2018/19
Annual bonus	No changes to the bonus structure were made. For the year to January 2018, performance targets were set requiring pre-tax EPS growth of at least -1.5% on the prior year, adjusted for special dividends and excluding exceptional gains, before any bonus became payable (being pre-tax EPS of 540.7p). 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 18.5% (being pre-tax EPS of 650.4p). Pre-tax EPS growth achieved in the year, adjusted for special dividends, was -2.9%. In accordance with the bonus formula, no bonus was earned. 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 2017/18. See single total figure of remuneration table, Note 5 for details of LTIP vestings in the year. In accordance with the Remuneration Policy approved by shareholders at the May 2017 AGM, for any LTIP grants made after that date participants will be entitled to receive ordinary and special dividend accruals on any awards vesting under the LTIP. Grants in 2018/19 will be otherwise made on the same basis to the 2017/18 grants (with any changes to the TSR comparator group confirmed immediately prior to each grant).
Recovery and withholding provisions	No change. The Committee previously introduced recovery and withholding provisions in the service contracts of all executive directors to cover the bonus and LTIP, and a 5 year from grant holding period (comprising a 3 year vesting period and a 2 year holding period) under the LTIP for executive directors. The Committee reconsidered these requirements during the year and concluded that these provisions remain appropriate.
Chairman and non-executive director fees	The fees of the Chairman and non-executive directors were increased by 2% in February 2018, in line with the wider Company award. The Chairman, Michael Roney, will be paid an annual fee of £331,500 (2017/18 annual fee as Chairman: £325,000). The basic non-executive director fee for 2018/19 is £56,834 (2017/18: £55,720), with a further £11,367 (2017/18: £11,144) paid to the Chairman of each of the Audit and Remuneration Committees respectively, and to the Senior Independent Director.
Pension	No change.
Other benefits	No material change.
Save As You Earn scheme (Sharesave)	No change.

Remuneration Report

Single total figure of remuneration (audited information)

Directors' remuneration

£000	Fixed pay: Salary/fees		Benefits[1]		Pension[2]		Salary supplement[3]		Subtotal		Performance-related pay: Annual bonus[4]		LTIP[5]		Share Matching Plan[6]		Sharesave		Subtotal		Total remuneration	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Chairman																						
Michael Roney*	**237**	n/a	**–**	–	**–**	–	**–**	–	**237**	n/a	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**237**	n/a
John Barton*	**136**	268	**–**	–	**–**	–	**–**	–	**136**	268	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**136**	268
Executive directors																						
Lord Wolfson	**773**	766	**39**	77	**225**	278	**116**	115	**1,153**	1,236	**–**	–	**–**	595	**–**	–	**–**	–	**–**	595	**1,153**	1,831
Amanda James	**416**	360	**38**	37	**7**	18	**14**	–	**475**	415	**–**	–	**–**	89	**–**	59	**–**	1	**–**	149	**475**	564
Michael Law	**416**	412	**23**	23	**50**	28	**62**	62	**551**	525	**–**	–	**–**	195	**–**	–	**–**	–	**–**	195	**551**	720
Jane Shields	**416**	412	**37**	35	**48**	25	**62**	62	**563**	534	**–**	–	**–**	195	**–**	–	**–**	1	**–**	196	**563**	730
Non-executive directors																						
Steve Barber Δ	**20**	66	**–**	–	**–**	–	**–**	–	**20**	66	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**20**	66
Jonathan Bewes †	**64**	18	**–**	–	**–**	–	**–**	–	**64**	18	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**64**	18
Caroline Goodall	**67**	66	**–**	–	**–**	–	**–**	–	**67**	66	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**67**	66
Francis Salway	**67**	66	**–**	–	**–**	–	**–**	–	**67**	66	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**67**	66
Dame Dianne Thompson	**56**	55	**–**	–	**–**	–	**–**	–	**56**	55	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**56**	55
	2,668	2,489	**137**	172	**330**	349	**254**	239	**3,389**	3,249	**–**	–	**–**	1,074	**–**	59	**–**	2	**–**	1,135	**3,389**	4,384

* Michael Roney was appointed as an independent non-executive director, Deputy Chairman and Chairman Designate with effect from 14 February 2017. Michael succeeded John Barton as Chairman when he retired on 1 August 2017. Michael was paid an annual fee of £162,500 up until 31 July 2017, thereafter he was paid an annual fee of £325,000. John Barton was paid an annual fee in 2017/18 of £270,635 until he retired on 1 August 2017.

Δ Steve Barber stepped down from the Board on 18 May 2017. No compensation for loss of office was paid to him.

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

Total emoluments paid to directors (salary/fees, benefits, salary supplements and annual bonus) for the year to January 2018 were £3,059,000 (2017: £2,900,000).

Note 1: Benefits

	Car/chauffeur charges/cash allowance		Fuel		Medical insurance & NEXT clothing allowance		Total	
	2017/18 £000	2016/17 £000	**2017/18 £000**	2016/17 £000	**2017/18 £000**	2016/17 £000	**2017/18 £000**	2016/17 £000
Lord Wolfson	**34**	66	**2**	8	**3**	3	**39**	77
Amanda James	**27**	26	**8**	8	**3**	3	**38**	37
Michael Law	**20**	20	**–**	–	**3**	3	**23**	23
Jane Shields	**27**	25	**7**	7	**3**	3	**37**	35

Note 2: Pension

Defined benefit (DB) pension values are calculated using the method required by remuneration regulations, i.e. the total pension accrued at January 2018 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, directors' salaries are frozen for DB pension purposes at October 2012, but directors may continue to accrue pensionable service.

In summary, the pension entitlements of the directors who were members of the DB section of the 2013 NEXT Group Pension Plan during the year are as follows:

	Age at January 2018	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	50	23	387	17	13
Michael Law	56	25	129	4	2
Jane Shields	54	19	124	4	2

Years of pensionable service shown above may include bought-in service from the transfer of other pension entitlements into the Plan. Directors' pension arrangements are subject to the same actuarial reduction as other employees on termination or early retirement.

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

Note 3: Salary supplement in lieu of pension

Supplements of 15% of base salary are paid in lieu of pension provision after the directors became deferred members of the DB section of the NEXT Group Pension Plan. Jane Shields has received this supplement from 2011, and Michael Law and Lord Wolfson from 2012. 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 75. For the year to January 2018, in accordance with the bonus formula, no bonus was awarded to any executive director.

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 90. For the three year period to July 2017, NEXT's TSR ranked number 18 in the comparator group of 21 and therefore none of the award granted in the second half of 2014 vested.

For the three year period to January 2018, NEXT's TSR ranked number 16 in the comparator group of 21 and therefore none of the award granted in January 2015 vested.

LTIP values included in the single figure table for the 2016/17 comparative figures have been calculated and updated to reflect the actual market values of the LTIP awards that vested in respect of performance periods ending in that financial year (as set out in the table on pages 81 and 82).

Note 6: Share Matching Plan (SMP)

Executive directors no longer receive SMP grants, however legacy awards run their course, including those that were granted to executive directors before they were promoted to the Board.

The 2014 SMP award granted to Amanda James before she was promoted to the Board vested at 96% of the maximum award in May 2017. That value shown in Directors' Remuneration table above for 2016/17 comparative figure has been calculated and updated to reflect the actual market value of the SMP awards on the date of vesting (at £43.62 per share).

Remuneration Report

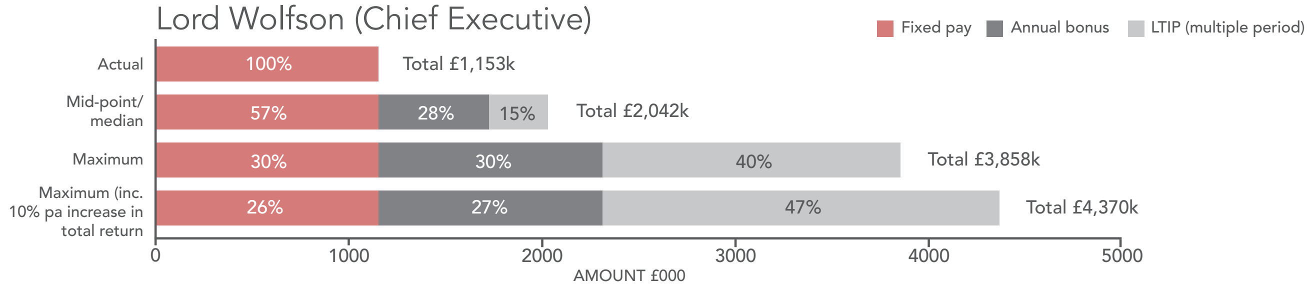
Total remuneration opportunity

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

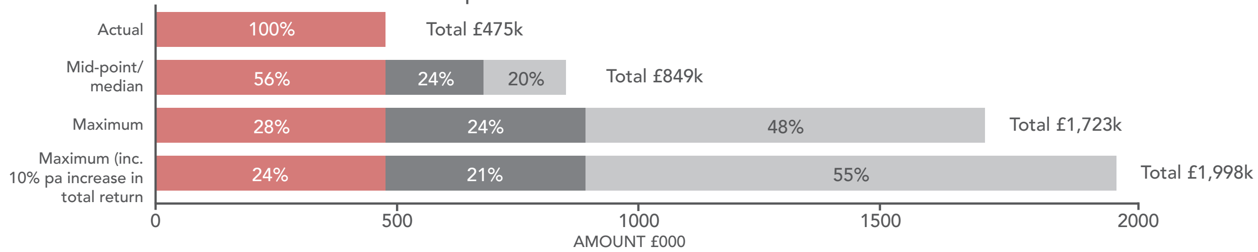
Variable pay is linked to measures which are aligned with the Company's long term strategy and objectives. The overall level of executive director pay remains modest compared with that available at other FTSE 100 companies and the chosen maximum remuneration indicated in the charts below reflects the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

The charts below show the 2017/18 actual remuneration achieved, as disclosed in the single total figure of remuneration on page 76, compared with the 2017/18 opportunity at mid-point, maximum and maximum including assumed share price appreciation and dividend roll-up of 10% per annum combined. As noted on page 72, Michael Law will step down from the Board at the close of the 2018 AGM and Richard Papp will be promoted from within the business and appointed as an executive director with effect from 14 May 2018. It is intended that Richard's salary is aligned with those of Jane Shields and Amanda James.

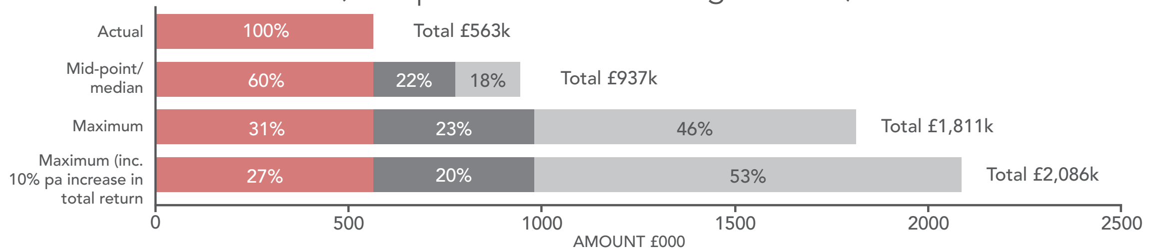
Lord Wolfson (Chief Executive)



Amanda James (Group Finance Director)



Jane Shields (Group Sales and Marketing Director)



In the above charts, the following assumptions have been made:	
Fixed/minimum	Values as for 2017/18 single figure of remuneration.
Mid-point/median	Includes the performance-related pay a director would receive in the scenario where: • 50% of maximum annual bonus is earned (being the mid-point). • LTIP performance results in a median TSR ranking and therefore 20% of the maximum award would vest.
Maximum	Includes the performance-related pay a director would receive in the scenario where performance equalled or exceeded maximum targets: • 100% of the annual bonus. • LTIP performance results in an upper quintile TSR ranking and therefore 100% of the maximum award would vest.
Maximum inc. 10% per annum increase in total return	As for the maximum scenario above, plus an increase in the value of the LTIP of 10% per annum to reflect possible share price appreciation and dividend accrual combined.

Executive directors' external appointments

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

Pension entitlements (audited information)

In 2013 all active members of the NEXT Group Pension Plan (the "Original Plan"), were transferred to the new 2013 NEXT Group Pension Plan (the "2013 Plan") so that pensioners of the Original Plan could be issued individual policies with Aviva. Most deferred pensioners and pensioners who had not previously been subject to a buy-in through Aviva were also transferred to the 2013 Plan. Benefits within the 2013 Plan mirror those in the previous Original Plan.

Executive directors are members of the 2013 Plan which has been approved by HMRC and consists of defined benefit and defined contribution sections.

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

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

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

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

Defined benefit section

The defined benefit section was closed to new members in 2000. Since 2012, the accrual of pension benefits has been based on pensionable salary frozen at October 2012, rather than final earnings. Those employees can also elect to receive up to a 15% salary supplement or additional contributions to the defined contribution section. The defined benefit section now provides members with a retirement benefit of one sixtieth or one eightieth (depending on the member's chosen contribution rate) of pensionable earnings at October 2012 for each year of pensionable service.

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

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

Members contribute 3% or 5% of pensionable earnings, whilst the Company makes contributions at the rate of 31.3%. The last full triennial actuarial valuation of the 2013 Plan was carried out as at 30 September 2016. As calculated in accordance with International Financial Reporting Standards, the net pension surplus at January 2018 was £106.2m. Further details are provided in Note 18 of the financial statements.

Certain members (including Lord Wolfson) whose accrued or projected pension fund value exceeds their personal lifetime allowance are provided with benefits through an unfunded, unapproved supplementary pension arrangement. The relevant members contribute towards the additional cost of providing these benefits by a payment of 5% on all pensionable earnings to the 2013 Plan. Since April 2011, where existing members have reached either the annual or lifetime pension contributions limits, the Company has offered those members the choice of leaving the defined benefit section and either joining the defined contribution section (with an enhanced Company contribution) or taking a salary supplement, in both cases equal to 10% or 15% of their salary (depending on their existing contributions and benefits).

Remuneration Report

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]		SMP		Sharesave[3]	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Lord Wolfson	**1,527,204**	1,518,184	**–**	5,180	**81,968**	71,127	**–**	9,204	**364**	364
Steve Barber[4]	**7,500**	7,500	**–**	–	**–**	–	**–**	–	**–**	–
John Barton[5]	**14,000**	14,000	**–**	–	**–**	–	**–**	–	**–**	–
Jonathan Bewes	**1,750**	1,750	**–**	–	**–**	–	**–**	–	**–**	–
Caroline Goodall	**450**	nil	**–**	–	**–**	–	**–**	–	**–**	–
Amanda James	**18,076**	17,107	**–**	–	**39,522**	25,553	**–**	1,418	**372**	372
Michael Law	**29,648**	27,765	**–**	–	**44,108**	36,605	**–**	2,468	**163**	163
Michael Roney[6]	**24,079**	n/a	**–**	–	**–**	–	**–**	–	**–**	–
Francis Salway	**9,040**	9,040	**–**	–	**–**	–	**–**	–	**–**	–
Jane Shields	**58,894**	57,013	**–**	–	**44,108**	36,605	**–**	2,466	**369**	369
Dame Thompson	**nil**	nil	**–**	–	**–**	–	**–**	–	**–**	–

1. Full details of the basis of allocation and terms of the deferred bonus are set out on page 89.
2. The LTIP amounts above are the maximum potential awards that may vest subject to performance conditions described on page 90.
3. Executive directors can participate in the Company's Sharesave scheme (see details on page 91) and the amounts above are the options which will become exercisable at maturity.
4. Steve Barber stepped down from the Board in May 2017.
5. John Barton stepped down from the Board in August 2017.
6. Michael Roney joined the Board in February 2017.

There have been no other changes to the current directors' interests in the shares of the Company from the end of the financial year to 22 March 2018. Full details of directors' interests in the shares and share options of the Company are contained in the Register of Directors' Interests which is open to inspection at the Company's registered office.

Minimum shareholding

The minimum shareholding required of executive directors is 200% of base salary and each director has 5 years from the date of their appointment to the Board to acquire the minimum shareholding. As at the 2017/18 financial year end, the value of shareholdings of all of the executives exceeded the share ownership guidelines.

	Shareholding % of base salary as at Jan 2018	Shareholding guidelines achieved
Lord Wolfson	10,309%	100%
Amanda James	227%	100%
Michael Law	297%	100%
Jane Shields	555%	100%

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

	Date of award	Maximum receivable at start of financial year	Awarded during the year	Shares vested/ exercised in the year	Options lapsed	Maximum receivable at end of financial year	Market price at award date £	Option price £	Market price on date of vesting/ exercise £	Vesting date/ exercisable dates[1]
Lord Wolfson										
Deferred Bonus Shares	Apr 2015	**5,180**	–	5,180	–	**–**	71.75	n/a	43.12	Apr 2017
LTIP	Mar 2014	13,187	–	2,637	10,550	–	56.37	nil	42.32	Jan 2017
	Sept 2014	11,421	–	–	11,421[2]	–	65.09	nil	–	Jul 2017
	Mar 2015	11,263[2]	–	–	–	11,263	66.66	nil	–	Jan 2018
	Sept 2015	10,106	–	–	–	10,106	74.29	nil	–	Jul 2018
	Mar 2016	10,360	–	–	–	10,360	73.92	nil	–	Jan 2019
	Sept 2016	14,790	–	–	–	14,790	51.78	nil	–	Jul 2019
	Mar 2017	–	16,552	–	–	16,552	46.73[3]	nil	–	Jan 2020
	Sept 2017	–	18,897	–	–	18,897	40.93[3]	nil	–	Jul 2020
		71,127				**81,968**				
SMP	Apr 2013	**9,204**	–	9,204	–	**–**	43.81	nil	41.66	Apr 2016 – Apr 2023
Sharesave	Oct 2013	**364**	–	–	–	**364**	–	41.12	–	Dec 2018 – Jun 2019
Amanda James										
LTIP	Mar 2014	2,342	–	468	1,874	–	56.37	nil	42.32	Jan 2017
	Sept 2014	2,765	–	–	2,765[2]	–	65.09	nil	–	Jul 2017
	Mar 2015	4,545[2]	–	–	–	4,545	66.66	nil	–	Jan 2018
	Sept 2015	4,079	–	–	–	4,079	74.29	nil	–	Jul 2018
	Mar 2016	4,870	–	–	–	4,870	73.92	nil	–	Jan 2019
	Sept 2016	6,952	–	–	–	6,952	51.78	nil	–	Jul 2019
	Mar 2017	–	8,907	–	–	8,907	46.73[3]	nil	–	Jan 2020
	Sept 2017	–	10,169	–	–	10,169	40.93[3]	nil	–	Jul 2020
		25,553				**39,522**				
SMP	May 2014	**1,418**	–	1,361	57	**–**	66.50	nil	44.77	May 2017 – May 2024
Sharesave	Oct 2013	264	–	–	–	264	–	41.12	–	Dec 2018 – Jun 2019
	Oct 2016	108	–	–	–	108	–	38.25	–	Dec 2021 – Jun 2022
		372				**372**				
Michael Law										
LTIP	Mar 2014	5,428	–	1,085	4,343	–	56.37	nil	42.32	Jan 2017
	Sept 2014	6,145	–	–	6,145[2]	–	65.09	nil	–	Jul 2017
	Mar 2015	6,061[2]	–	–	–	6,061	66.66	nil	–	Jan 2018
	Sept 2015	5,438	–	–	–	5,438	74.29	nil	–	Jul 2018
	Mar 2016	5,575	–	–	–	5,575	73.92	nil	–	Jan 2019
	Sept 2016	7,958	–	–	–	7,958	51.78	nil	–	Jul 2019
	Mar 2017	–	8,907	–	–	8,907	46.73[3]	nil	–	Jan 2020
	Sept 2017	–	10,169	–	–	10,169	40.93[3]	nil	–	Jul 2020
		36,605				**44,108**				
SMP	Apr 2013	**2,468**	–	2,468	–	**–**	43.81	nil	41.66	Apr 2016 – Apr 2023
Sharesave	Oct 2014	**163**	–	–	–	**163**	–	54.92	–	Dec 2017 – Jun 2018

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 2014	5,428	–	1,085	4,343	–	56.37	nil	42.32	Jan 2017
	Sept 2014	6,145	–	–	6,145[2]	–	65.09	nil	–	Jul 2017
	Mar 2015	6,061[2]	–	–	–	6,061	66.66	nil	–	Jan 2018
	Sept 2015	5,438	–	–	–	5,438	74.29	nil	–	Jul 2018
	Mar 2016	5,575	–	–	–	5,575	73.92	nil	–	Jan 2019
	Sept 2016	7,958	–	–	–	7,958	51.78	nil	–	Jul 2019
	Mar 2017	–	8,907	–	–	8,907	46.73[3]	nil	–	Jan 2020
	Sept 2017	–	10,169	–	–	10,169	40.93[3]	nil	–	Jul 2020
		36,605				**44,108**				
SMP	Apr 2013	**2,466**	–	2,466	–	**–**	43.81	nil	41.66	Apr 2016 – Apr 2023
Sharesave	Oct 2013	299	–	–	–	299	–	41.12	–	Dec 2018 – Jun 2019
	Oct 2016	70	–	–	–	70	–	38.25	–	Dec 2021 – Jun 2022
		369				**369**				

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 77 for details of the performance conditions and vesting levels applicable to the LTIP schemes with performance periods ending in the financial year 2017/18.
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 and Deferred Bonus Shares. From 2014 onwards, LTIP awards granted to executive directors which vest must be taken in shares and the net shares (after payment of tax and NIC) must be held for a minimum period of two further years.

The aggregate gains of directors arising from the exercise of options granted under the SMP and Sharesave, and the LTIP that vested in the 2017/18 year totalled £874,000 (2016/17: £2,325,000).

Scheme interests awarded during the financial year ended January 2018 (audited information)

LTIP				
Face value	In respect of the LTIP conditional share awards granted during the year 2017/18, 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 2017 £000	Sep 2017 £000	Total £000
	Lord Wolfson	773	773	1,546
	Amanda James	416	416	832
	Michael Law	416	416	832
	Jane Shields	416	416	832
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 2017 grant: three years to January 2020. September 2017 grant: three years to July 2020.			
Performance measures	The LTIP performance measures are detailed on page 90. 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
	Carpetright	J Sainsbury	Mothercare	Tesco
	Debenhams	JD Sports	N Brown	W H Smith
Dividend roll-up	For grants from September 2017, the award may be increased to reflect dividends paid over the period to vesting (assuming reinvestment at the prevailing share price).			

Deferred bonus

In addition to the scheme interests detailed above, any annual bonus in excess of 100% of base salary payable to the Chief Executive is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period. No 2017/18 annual bonus was earned.

Performance targets for outstanding awards

Summarised below are the performance targets for all outstanding awards made under the LTIP and SMP schemes:

LTIP

Details of potential awards granted to executive directors for outstanding performance periods are as follows:

	Maximum potential award granted (% of base salary)	
Three year performance periods commencing	**Lord Wolfson**	**Amanda James, Michael Law & Jane Shields**
August 2015	100%	100%
February 2016 and August 2016	100%	100%
February 2017 and August 2017	100%	100%

Details of the comparator group for the LTIP three year performance periods commencing February 2017 and August 2017 are shown above. The comparator group for the performance period commencing in August 2016 is also the same.

Remuneration Report

The comparator group for the performance periods commencing in August 2014, February 2015, August 2015 and February 2016 is the same as above with the exception of Home Retail Group and Poundland who were included, and Pets at Home and B&M European Value Retail who were not included.

Following the acquisition by J Sainsbury of Home Retail Group in September 2016, Home Retail Group was delisted from the London Stock Exchange. For the LTIP grants prior to that time, J Sainsbury and Home Retail Group will continue as two separate entries with their relative TSRs being measured on pre (independent) and post (identical) takeover performance over each performance period.

Poundland was also delisted following its acquisition in September 2016. For the LTIP grants prior to that time which included Poundland in the comparator group, from September 2016, the relative TSR of B&M European Value Retail replaces that of Poundland.

SMP (legacy only)

The Committee decided in 2014 that executive directors should no longer participate in the SMP. Amanda James was promoted to the Board in 2015 and Amanda's SMPs awarded prior to her promotion continued to run their course, with the last one vesting in May 2017. No executive director held any outstanding SMP awards as at the 2017/18 financial year end. The SMP remains open to a small number of senior executives below Board level.

Vesting of awards is dependent solely on achieving the underlying fully diluted post-tax EPS targets detailed below. 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.

Payments to past directors (audited information)

There were no payments made to past directors during the 2017/18 financial year.

Payments for loss of office (audited information)

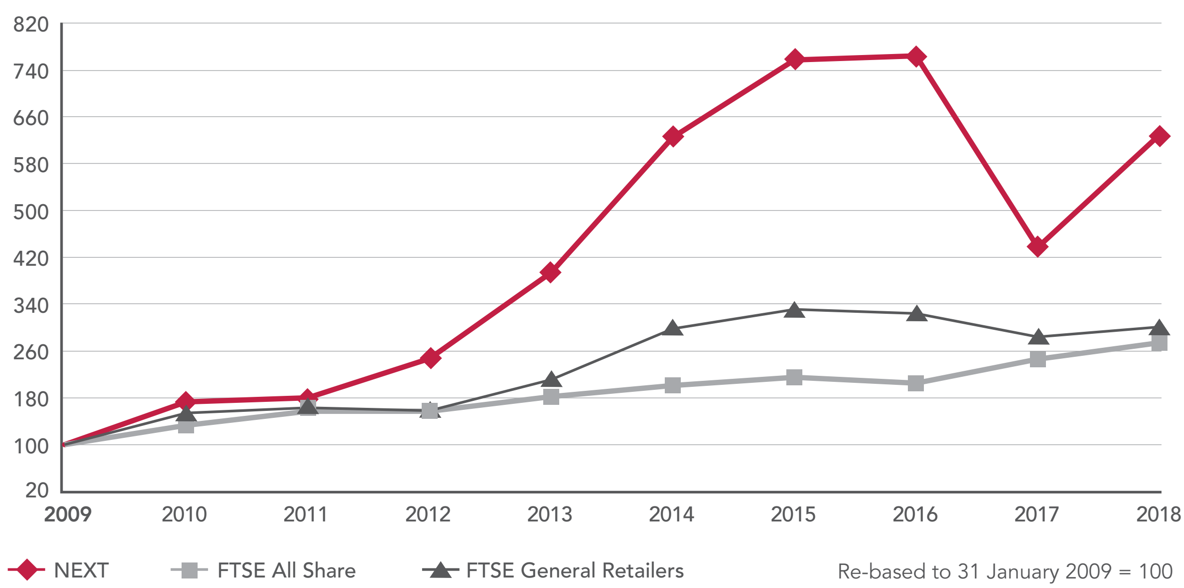
There were no payments made to any director in respect of loss of office during the 2017/18 financial year.

Performance and CEO remuneration comparison

Performance graph

The graph below illustrates the Total Shareholder Returns (TSR) performance of the Company when compared with the FTSE All Share and FTSE General Retailers indices. These have been selected to illustrate the Company's total shareholder return performance against a wide UK index and a sector specific index for the nine year period ended January 2018.

NEXT plc performance chart 2009-2018 Total Shareholder Return



Analysis of Chief Executive's pay over 9 years

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

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

Change in remuneration of Chief Executive

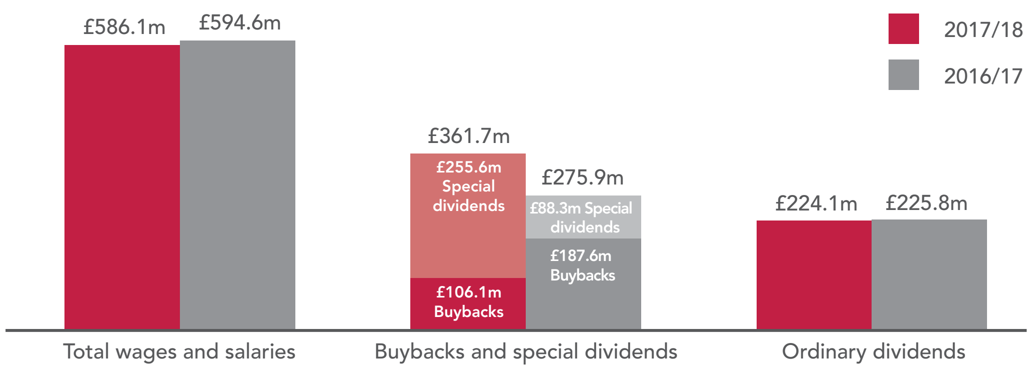
The table below shows the percentage changes in Lord Wolfson's remuneration (i.e. salary, taxable benefits and annual bonus) between 2016/17 and 2017/18 compared with the percentage changes in the average of each of those components of pay for Group employees in the UK and Eire. This group has been selected as the most appropriate comparator and represents over 86% of the Group's workforce.

	Salary % change	Annual bonus % change	Taxable benefits % change
Lord Wolfson	+1.0%	–	-49.3%
UK/Eire Employees (average per FTE)	+5.8%	+18.1%	+17.7%

Relative importance of spend on pay

The graph below illustrates for the years 2017/18 and 2016/17 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



Remuneration Report

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 a significant number of 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 23 of the financial statements).

Consideration of matters relating to directors' remuneration

Remuneration Committee

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

Caroline Goodall (Committee Chairman)
Steve Barber (until May 2017)
John Barton (until August 2017)
Jonathan Bewes
Michael Roney (from February 2017)
Francis Salway
Dame Dianne Thompson

The Committee met five times during the year under review and all meetings were fully attended.

Role and work of Remuneration Committee

The Committee determines the remuneration of the Group's Chairman and executive directors, and reviews that of senior executives. 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 (www.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. Aon Hewitt Ltd and FIT Remuneration Consultants LLP (FIT) also provided independent external advice, including updates on legislative requirements, best practice, and other matters of a technical nature and related to share plans.

Aon Hewitt and FIT have no other connection with the Company and were appointed by the Committee based on their expertise in the relevant areas of interest. Based on the nature of the advice, the relatively small fees and no other connection existing with these advisers, the Committee was satisfied that the advice received was objective and independent. Aon Hewitt and FIT 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. At the beginning of the year PricewaterhouseCoopers LLP (PwC) provided independent verification services of total shareholder returns for NEXT and the comparator group of companies under the LTIP and other technical assistance. This work was then moved to Deloitte LLP, prior to the appointment of PwC as external auditor of NEXT.

During the year Aon Hewitt and FIT were each paid less than £17k and PwC and Deloitte were each paid less than £3k for the services described above, charged at their standard hourly rates.

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 2016/17 Remuneration Report	2017	108,223,045	99.6	436,396	0.4	108,659,441	73.9	820,060
Authority for the directors to amend the rules of the NEXT LTIP (to permit new awards under this plan to receive the benefit of dividends paid in the period between grant and vesting)	2017	108,796,669	99.4	665,001	0.6	109,461,670	74.4	17,832

Service contracts

Executive directors

The Company's policy on notice periods and in relation to termination payments is set out in the policy table on page 92. 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
Michael Law	1 July 2013	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
Caroline Goodall	1 January 2013	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

Remuneration Report

Part 3: Remuneration Policy Table

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

A shareholder vote on Remuneration Policy is not required in 2018.

On behalf of the Board

Caroline Goodall
Chairman of the Remuneration Committee

23 March 2018

Remuneration Policy table, as approved in 2017. All page references below are to the January 2017 Annual Report and Accounts which is available on our website.

Base salary

Purpose and link to strategy

To attract, motivate and retain high calibre individuals, while not overpaying. To provide a satisfactory base salary within a total package comprising salary and performance-related pay.

Performance-related components and certain benefits are calculated by reference to base salary. The level of salary broadly reflects the value of the individual, their role, skills and experience.

Operation

Normally reviewed annually, generally effective 1 February. The Committee focuses particularly on ensuring that an appropriate base salary is paid to directors and senior managers. The Committee considers salaries in the context of overall packages with reference to individual experience and performance, the level and structure of remuneration for other employees, the external environment and market data. External benchmarking analysis is only occasionally undertaken and the Committee has not adopted a prescribed objective of setting salaries by reference to a particular percentile or benchmark.

Maximum opportunity

There is no guaranteed annual increase. The Committee considers it important that base salary increases are kept under tight control given the multiplier effect of such increases on future costs. In the normal course of events, increases in executive directors' salaries would be in line with the wider Company cost of living awards.

The Committee reserves flexibility to grant larger increases where considered appropriate, such as where a new executive director, being an internal promotion, has been appointed to the Board with an initial salary which is considered below the normal market rate, then the Committee may make staged increases to bring the salary into line as the executive gains experience in the role. Also if there have been significant changes in the size and scope of the executive's role then the Committee would review salary levels accordingly.

Under the reporting regulations the Company is required to specify a maximum potential value for each component of pay. Accordingly, for the period of this policy no base salary paid to an executive director in any year will exceed £850,000 (being the current median base salary of FTSE 100 Chief Executives). The amount of the maximum base salary which may be paid to an executive director in any year shall increase in line with the growth in RPI from the date of approval of this policy.

Performance measures and targets

Not applicable.

Key changes to last approved policy

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

Annual bonus

Purpose and link to strategy

To incentivise delivery of stretching annual goals.

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

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, 20% of the maximum bonus may be earned. A straight sliding scale of payments operates for performance between the minimum and maximum levels. There is no in-line target level although, for the purposes of the scenario charts on page 71, 50% of maximum bonus has been assumed because it is the mid-point.

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 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; and
- 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. Generally, the threshold for staff bonuses is set at a lower level than for directors. The Committee reserves flexibility to apply discretion in the interests of fairness to shareholders and executives by making adjustments it considers appropriate.

The Committee reserves flexibility to apply different performance measures and targets in respect of the annual bonus for the period of this policy but a financial measure will continue to be used for at least 75% of the award. The Committee will consult with major shareholders before any significant changes are made to the use of performance measures.

The basis of performance measurement incorporates an appropriate adjustment to EPS growth to reflect the benefit to shareholders from special dividends paid in any period.

Key changes to last approved policy

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

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 200% of annual salary (i.e. 100% every six months) 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.

Key changes to last approved policy

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

Pension

Purpose and link to strategy

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

Operation

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

In addition to being a deferred member of the DB section of the Plan, Lord Wolfson is a member of the unfunded, unapproved supplementary pension arrangement (SPA), described on page 77. His future pension will be calculated by reference to his October 2012 salary, rather than his final earnings, and any future salary changes will have no effect.

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

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

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

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

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

Maximum opportunity

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

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

Performance measures and targets

Not applicable.

Key changes to last approved policy

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

Other benefits

Purpose and link to strategy

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

Operation

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

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

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

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

Maximum opportunity

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

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

Performance measures and targets

Not applicable.

Key changes to last approved policy

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

Save As You Earn Scheme (Sharesave)

Purpose and link to strategy

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

Operation

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

Updated to permit the maximum amount to reflect the latest HMRC limits.

Remuneration Report

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

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

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

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

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

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

Performance measures and targets

Not applicable.

Key changes to last approved policy

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

Recovery and withholding provisions

Purpose and link to strategy

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

Operation

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

No material changes.

Chairman and non-executive director fees

Purpose and link to strategy

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

Operation

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

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

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

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

Maximum opportunity

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

Performance measures and targets

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

Key changes to last approved policy

No material changes.

All page references above are to the January 2017 Annual Report and Accounts which is available on our website.

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 27 January 2018 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 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 27 January 2018, 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 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

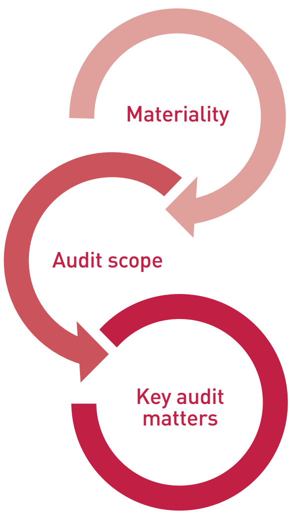
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 29 January 2017 to 27 January 2018.

Our audit approach

Overview



- Overall Group materiality: £36.0 million, based on approximately 5% of profit before tax.
- Overall Parent Company materiality: £25.0 million, based on approximately 1% of total assets.
- We conducted an audit of the complete financial information of one financially significant reporting unit as well as five other reporting units.

- Five 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 95% of revenue, 97% of profit before tax and 98% of total assets.

- Recoverability of Online customer receivables (Group).
- Inventory being in excess of net realisable value (Group).
- Appropriateness of other provisions (Group).
- Valuation of financial instruments (Group and Parent Company).
- Accounting for defined benefit pension arrangements (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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to: the Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation and the Financial Conduct Authority's handbook with respect to credit related regulated activity.

Our tests included, but were not limited to: review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management, enquiries of internal legal team and review of internal audit reports in so far as they related to the financial statements. 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.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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 Online customer receivables **Group** Refer to the Audit Committee Report on page 67, major sources of estimation uncertainty within the Group Accounting Policies and Note 11 for customer and other receivables. An allowance of £138.7m is recognised against Online customer receivables of £1,255.6m. The allowance against Online customer receivables involves judgement in determining the expected loss to NEXT where a loss event has occurred by the year end date. The significant judgements and assumptions as applied when calculating the allowance are: • how impairment triggers (or "loss events") are identified; • the default rate representing the likelihood of eventual default for debt within each risk or ageing category of the gross receivable balance; and • the recovery rate on defaulted debt which has been passed onto debt collection agencies. The above judgements and assumptions are influenced by a mixture of internally and externally sourced information.	We have performed controls testing on the origination and servicing of the underlying Online customer receivables and related IT systems and have substantively tested the year end receivables balance to which management have applied their provision assumptions. We assessed management's provision methodology against the requirements of IAS 39, utilising our financial services specialists. We have tested historical default experience and recoveries and the stratification of the year end book by arrears position and customer credit ratings, being the two key drivers to the provision calculated by management. We have then independently re-calculated the provision, based on management's assumptions. Independently, we have assessed the appropriateness of management's assumptions based on NEXT's historical book experience and externally sourced evidence. For those assumptions which involved most management judgement, we have performed sensitivity analysis, based on alternative assumptions. In relation to management's estimate of losses which have been incurred as at the year end date but have not yet emerged through missed payments, we have looked closely at the performance of the book in the months leading up to the year end and subsequent and applied additional sensitivities. Our testing included assessing whether the performing Online customer receivables are genuinely performing to ensure loans and advances are appropriately recorded. We formed 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 **Group** Refer to the Audit Committee Report on page 68 and the major sources of estimation uncertainty within the Group Accounting Policies. The valuation of inventory involves judgement in recording provisions for slow moving or obsolete inventory. The significant judgements and assumptions as applied when calculating the provisions are: • the forecasted sell through rates of current and prior season inventory to determine inventory expected to be sold via clearance channels; and • the forecasted cash recovery rates on inventory sold via clearance channels. In addition, provisions are recognised for shrinkage and faulty inventory which require an estimate of expected inventory losses and realisable amounts.	We evaluated the forecasted sell through and cash recovery rates by corroborating historical rates and then assessing management's judgement as to changes in customer behaviour/macro-economic conditions and the impact of this on forecasted rates. We have performed sensitivity analysis over key judgements taken by management and assessed the impact of this sensitivity analysis on the provision value. We tested the integrity of the provision model to ensure that it was using the underlying data correctly and calculating provision amounts accurately. We reviewed inventory write-offs in the financial period to ensure they are consistent with the total inventory provision held at year end. We found that the provisions recorded were consistent with the evidence obtained.
Appropriateness of other provisions **Group** Refer to the Audit Committee Report on page 68, the major sources of estimation uncertainty within the Group Accounting Policies, Note 15 for trade payables and other liabilities and Note 19 for provisions. Revenue returns provisions involve judgement in determining the expected amount of returns to be received subsequent to the year end date. Property-related provisions involve judgement in determining the extent to which certain leases are considered to be onerous and the expected value of rectification costs to be incurred on leased properties when they are vacated.	We evaluated revenue returns provisions by testing the expected returns rate across the NEXT Retail and NEXT Online segments and the gross margin amounts as applied to the net provision. We also understood the rights of customers to return goods, tested the amount of returns received in the period and post year end and then compared that to the return rate per the provision calculation. We evaluated the property-related provisions by testing management's assessment of the onerous elements of lease agreements and agreeing management's assumptions in relation to future property rectification costs to the spend incurred during the year. We also evaluated loss making stores where impairments and provisions were not in place to confirm that it was reasonable that no impairments or provisions had been recognised. We found that the provisions recorded were consistent with the evidence obtained.
Valuation of financial instruments **Group and Parent Company** Refer to the Audit Committee Report on page 68 and Note 24 for financial instruments. 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 marked 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. 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. Our valuation specialists also estimated the impact of a credit risk adjustment arising from the counterparty's credit risk when NEXT holds an asset and arising from NEXT's credit risk when holding a liability. We found the valuation of foreign exchange and interest rate derivatives to be consistent with the evidence obtained.
Accounting for defined benefit pension arrangements **Group** Refer to the Audit Committee Report on page 68, the major sources of estimation uncertainty within the Group Accounting Policies and Note 18 for pension benefits. The defined benefit pension scheme obligation of £830.3 million is calculated based on actuarial assumptions which are subject to significant management judgement and are also sensitive to small changes. In addition, there are restrictions under IAS 19 and IFRIC 14 as to when a net pension surplus should be recognised.	We used actuarial specialists to review the key actuarial assumptions across the Original Plan, the 2013 Plan and the SPA. We found that the assumptions utilised by NEXT in the pension obligation valuation were reasonable and within our expected range. We reviewed the trust deeds for the 2013 Plan where a material net surplus is recognised by NEXT. From this review, we concur with management's assessment that under the requirements of IFRIC 14, NEXT should recognise the net surplus on the pension scheme. We are satisfied that the valuation of the defined benefit pension scheme obligations and the recognition of the net surplus is consistent with the evidence obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of a number of reporting units, comprising the Group's operating businesses within its six segments with our audit work focused on the NEXT Retail, NEXT Online, 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 and NEXT Online segments).

In addition, full scope audits were performed over five other reporting units which contribute to the highlighted segments, though these are not considered to be individually significant either financially or due to risk characteristics.

The audit work performed at these six reporting units, together with additional procedures performed on centralised functions at the Group level, including audit procedures over the consolidation and intangible asset impairment testing, gave us the evidence we needed for our opinion on the Group financial statements as a whole. This scoping as described above results in the following coverage at the key metrics:

- 95% of revenue;
- 97% of profit before tax; and
- 98% of total assets.

Five of the six in-scope components were audited by the UK Group Engagement Team with the remaining component audited by a team in Hong Kong. Throughout the audit cycle, senior members of the Group Engagement Team worked closely with the local component team including review of risk assessment and attendance via video conference at the local closing meeting with management. Their workpapers were also subject to review by the Group Engagement Team.

The Parent Company is comprised of one reporting unit which was subject to a full scope audit for the purposes of the Group and Parent Company financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	£36.0 million.	£25.0 million.
How we determined it	5% of profit before tax.	1% of Total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	The Parent Company's main operations are the holding and servicing of the Group's corporate bonds and payment of dividends to external equity shareholders. It does not trade and therefore total assets is considered to be the most appropriate benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £6.0 million to £33.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.8 million (Group audit) and £1.3 million (Parent Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent Auditor's Report to the Members of NEXT plc

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.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.
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 and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, 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 27 January 2018 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)

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 42 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 47 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 61, 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 pages 67 to 70 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 61, 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.

Auditors' responsibilities for the audit of the financial statements

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

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

Independent Auditor's Report to the Members of NEXT plc

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. This is therefore our first year of uninterrupted engagement.

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

23 March 2018

GROUP FINANCIAL STATEMENTS

Consolidated Income Statement

	Notes	**52 weeks to 27 January 2018 £m**	52 weeks to 28 January 2017 £m
Continuing operations			
Revenue	1, 2	**4,055.5**	4,097.3
Cost of sales		**(2,699.3)**	(2,710.7)
Gross profit		**1,356.2**	1,386.6
Distribution costs		**(363.9)**	(345.1)
Administrative expenses		**(232.3)**	(214.9)
Other (losses)/gains	3	**(1.1)**	0.1
Trading profit		**758.9**	826.7
Share of results of associate and joint venture		**1.0**	1.0
Operating profit	3	**759.9**	827.7
Finance income	5	**1.3**	0.3
Finance costs	5	**(35.1)**	(37.8)
Profit before taxation		**726.1**	790.2
Taxation	6	**(134.3)**	(154.9)
Profit for the year attributable to equity holders of the Parent Company		**591.8**	635.3
Earnings Per Share			
Basic	8	**416.7p**	441.3p
Diluted	8	**415.7p**	438.1p

The Notes 1 to 30 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	52 weeks to 27 January 2018 £m	52 weeks to 28 January 2017 £m
Profit for the year		**591.8**	635.3
Other comprehensive income and expenses:			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit pension scheme	18	**43.4**	(2.4)
Tax relating to items which will not be reclassified	6	**(7.4)**	0.2
Subtotal items that will not be reclassified		**36.0**	(2.2)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**7.8**	0.3
Foreign currency cash flow hedges:			
– fair value movements		**(79.8)**	111.6
– reclassified to the Income Statement		**(12.3)**	(91.2)
– recognised in inventories		**8.8**	(25.6)
Tax relating to items which may be reclassified	6	**14.2**	2.0
Subtotal items that may be reclassified		**(61.3)**	(2.9)
Other comprehensive expense for the year		**(25.3)**	(5.1)
Total comprehensive income for the year		**566.5**	630.2

Consolidated Balance Sheet

	Notes	27 January 2018 £m	28 January 2017 £m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	**558.9**	578.6
Intangible assets	10	**42.9**	43.3
Associate, joint venture and other investment		**2.1**	2.1
Defined benefit pension asset	18	**106.2**	62.9
Other financial assets	12	**48.1**	57.3
Deferred tax assets	6	**5.8**	–
		764.0	744.2
Current assets			
Inventories		**490.1**	451.1
Customer and other receivables	11	**1,248.2**	1,125.8
Other financial assets	12	**5.7**	34.0
Cash and short term deposits	13	**53.5**	49.7
		1,797.5	1,660.6
Total assets		**2,561.5**	2,404.8
Current liabilities			
Bank loans and overdrafts	14	**(180.0)**	(35.3)
Trade payables and other liabilities	15	**(580.2)**	(615.8)
Other financial liabilities	16	**(59.3)**	(3.2)
Current tax liabilities		**(95.3)**	(70.7)
		(914.8)	(725.0)
Non-current liabilities			
Corporate bonds	17	**(908.5)**	(913.5)
Provisions	19	**(10.4)**	(6.7)
Other financial liabilities	16	**(12.4)**	(16.5)
Other liabilities	15	**(232.8)**	(226.9)
Deferred tax liabilities	6	**–**	(5.7)
		(1,164.1)	(1,169.3)
Total liabilities		**(2,078.9)**	(1,894.3)
NET ASSETS		**482.6**	510.5
TOTAL EQUITY		**482.6**	510.5

The financial statements were approved by the Board of directors and authorised for issue on 23 March 2018. 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	Fair value reserve £m	Foreign currency translation £m	Other reserves (Note 21) £m	Retained earnings £m	Total equity £m
At 30 January 2016	**15.1**	**0.9**	**14.8**	**(208.7)**	**29.4**	**(4.8)**	**(1,443.8)**	**1,908.9**	**311.8**
Profit for the year	–	–	–	–	–	–	–	635.3	**635.3**
Other comprehensive (expense)/income for the year	–	–	–	–	(3.2)	0.3	–	(2.2)	**(5.1)**
Total comprehensive (expense)/income for the year	–	–	–	–	(3.2)	0.3	–	633.1	**630.2**
Share buybacks and commitments (Note 20)	(0.4)	–	0.4	–	–	–	–	(187.6)	**(187.6)**
ESOT share purchases and commitments (Note 23)	–	–	–	(50.9)	–	–	–	–	**(50.9)**
Shares issued by ESOT	–	–	–	44.2	–	–	–	(13.7)	**30.5**
Share option charge	–	–	–	–	–	–	–	13.1	**13.1**
Tax recognised directly in equity (Note 6)	–	–	–	–	–	–	–	(10.8)	**(10.8)**
Equity dividends (Note 7)	–	–	–	–	–	–	–	(225.8)	**(225.8)**
At 28 January 2017	**14.7**	**0.9**	**15.2**	**(215.4)**	**26.2**	**(4.5)**	**(1,443.8)**	**2,117.2**	**510.5**
Profit for the year	–	–	–	–	–	–	–	591.8	**591.8**
Other comprehensive (expense)/income for the year	–	–	–	–	(69.1)	7.8	–	36.0	**(25.3)**
Total comprehensive (expense)/income for the year	–	–	–	–	(69.1)	7.8	–	627.8	**566.5**
Share buybacks and commitments (Note 20)	(0.2)	–	0.2	–	–	–	–	(106.1)	**(106.1)**
ESOT share purchases and commitments (Note 23)	–	–	–	(37.0)	–	–	–	–	**(37.0)**
Shares issued by ESOT	–	–	–	20.8	–	–	–	(10.5)	**10.3**
Share option charge	–	–	–	–	–	–	–	14.1	**14.1**
Acquisition of minority interest in subsidiary	–	–	–	–	–	–	–	(0.4)	**(0.4)**
Tax recognised directly in equity (Note 6)	–	–	–	–	–	–	–	4.4	**4.4**
Equity dividends (Note 7)	–	–	–	–	–	–	–	(479.7)	**(479.7)**
At 27 January 2018	**14.5**	**0.9**	**15.4**	**(231.6)**	**(42.9)**	**3.3**	**(1,443.8)**	**2,166.8**	**482.6**

Consolidated Cash Flow Statement

	52 weeks to 27 January 2018 £m	52 weeks to 28 January 2017 £m
Cash flows from operating activities		
Operating profit	**759.9**	827.7
Depreciation, impairment and loss on disposal of property, plant and equipment	**122.6**	116.3
Amortisation of intangible assets	**0.4**	0.4
Share option charge	**14.1**	13.1
Exchange movement	**6.1**	0.3
(Increase)/decrease in inventories	**(39.0)**	35.3
Increase in customer and other receivables	**(126.0)**	(73.7)
Decrease in trade and other payables	**(16.9)**	(49.7)
Net pension contributions less income statement charge	**–**	(19.3)
Cash generated from operations	**721.2**	850.4
Corporation taxes paid	**(106.0)**	(150.9)
Net cash from operating activities	**615.2**	699.5
Cash flows from investing activities		
Additions to property, plant and equipment	**(104.2)**	(160.8)
Movement in capital accruals	**(8.6)**	3.8
Payments to acquire property, plant and equipment	**(112.8)**	(157.0)
Proceeds from sale of property, plant and equipment	**1.0**	2.7
Outflow on the acquisition of minority interest in a subsidiary	**(0.4)**	–
Net cash from investing activities	**(112.2)**	(154.3)
Cash flows from financing activities		
Repurchase of own shares	**(105.1)**	(187.6)
Purchase of shares by ESOT	**(37.0)**	(50.9)
Disposal of shares by ESOT	**11.3**	29.9
Proceeds from/(repayment of) unsecured bank loans	**135.0**	(115.0)
Issue of corporate bond	**–**	297.3
Repayment of corporate bond	**–**	(212.6)
Interest paid	**(33.4)**	(31.5)
Interest received	**1.3**	0.1
Dividends paid (Note 7)	**(479.7)**	(314.1)
Net cash from financing activities	**(507.6)**	(584.4)
Net decrease in cash and cash equivalents	**(4.6)**	(39.2)
Opening cash and cash equivalents	**14.4**	52.7
Effect of exchange rate fluctuations on cash held	**(1.3)**	0.9
Closing cash and cash equivalents (Note 28)	**8.5**	14.4

Group Accounting Policies

General Information

NEXT plc and its subsidiaries (the "Group") is a UK based retailer which offers exciting, beautifully designed, wonderful 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 27 January 2018 (last year 52 weeks to 28 January 2017).

There have been no changes to our accounting policies this year and the principal policies adopted are set out below.

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. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates and joint ventures are all entities over which the Group has significant influence but not control. 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.

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. Sales of goods are recognised on delivery.

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

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

Where third-party goods are sold on a commission basis, only the commission receivable is included in statutory 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.

Royalty income is received from franchisees and is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Dividend Income

Dividend income is recognised when the right to receive payment is established.

Group Accounting Policies

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 reviewed for impairment annually or whenever there is an indication of impairment. For the purposes of impairment testing, goodwill acquired is allocated to the Cash generating unit (CGU) that is expected to benefit from the synergies of the combination. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other Intangible Assets

Other intangible assets relate to the Lipsy brand names and trademarks obtained on acquisition which were initially recognised at fair value. They are amortised on a straight line basis over their expected useful lives of 10 years.

Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable.

Investments

Investments in subsidiary companies (Parent Company only) and equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, subject to review for impairment.

Impairment

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

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.

Online Customer and Other Receivables

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

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 28 of the financial statements.

Corporate Bonds and Bank Borrowings

Corporate bonds and bank borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost and adjusted where hedge accounting applies (see interest rate derivatives on page 110). Accrued interest is included within other creditors and accruals.

Pension Arrangements

The Group provides pension benefits which include both defined benefit and defined contribution arrangements. Pension assets are held in separate trustee administered funds and the Group also provides other, unfunded, pension benefits to certain plan members.

The cost of providing benefits under the defined benefit and unfunded arrangements are determined separately for each plan using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date by external actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. A net pension asset is only recognised to the extent that it is expected to be recoverable in the future through a cash refund or a reduction in future payments.

The current service cost of the defined benefit plan is recognised in the Income Statement as an employee benefit expense. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

The cost of defined contribution schemes is recognised in the Income Statement as incurred. The Group has no further payment obligations once the contributions have been paid.

Share-based Payment

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 over the vesting period of the option or award, and is regularly reviewed and adjusted for the expected and actual number of options or awards vesting. The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

For cash-settled awards, the fair value of the liability is determined at each balance sheet date and the cost is recognised in the 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 and is calculated using rates of taxation enacted or substantively enacted at the balance sheet date which are expected to apply when the asset or liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is not recognised in respect of investments in subsidiaries and associates where the reversal of any taxable temporary differences can be controlled and are unlikely to reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis.

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

Group Accounting Policies

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 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).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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.

Changes in the fair value of interest rate derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS 39 are recognised in the Income Statement.

Foreign currency derivatives – cash flow hedges

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

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

Changes in the fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in IAS 39 are recognised in the Income Statement.

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.

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 legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

Leasing Commitments

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

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

Major Sources of Estimation Uncertainty

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

Recoverable amount of Online customer receivables

The provision for potentially irrecoverable debtors (refer to Note 11) is calculated using a combination of internally and externally sourced information, including historical default and collection rates and other credit data. The basis for identifying when debtors are potentially impaired has been applied consistently. A 1% movement in default rate would move the provision by c£2.5m. A 1% movement in the collections rate would change the provision balance by c£0.8m.

Net realisable value of inventories

The selling prices of inventory are estimated to determine the net realisable value of inventory (£490.1m at 27 January 2018). Historical sales patterns and post year end trading performance are used to determine these. A 2% change in the volume of inventories going to clearance would impact the net realisable value by c£4m. A 2% change in the level of markdown applied to the selling price would impact the value of inventories going to clearance by c£8m.

Defined benefit pension valuation

The assumptions applied in determining the defined benefit pension obligation (Note 18), are particularly sensitive to small changes in assumptions. Advice is taken from a qualified actuary to determine appropriate assumptions at each balance sheet date. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. A sensitivity analysis is shown in Note 18. In determining the appropriate discount rate, management considers the interest rates of high quality UK corporate bonds, with extrapolated maturities corresponding to the expected duration of the obligation. The mortality rate is based on publicly available mortality tables.

Other

Other areas of estimation and judgement include product returns rates and property provisions. Product returns rates are based on historical returns rate patterns and are recorded so as to allocate them to the same period in which the original revenue is recorded. Sensitivities to the assumptions for product returns and property provisions are not expected to result in a material change in the carrying amount. These provisions are reviewed regularly and updated to reflect management's latest best estimates.

New Accounting Standards

Various new or revised accounting standards have been issued which are not yet effective. The key ones affecting the Group are described below. The Group does not intend to early adopt these standards.

a. IFRS 15 *"Revenue from contracts with customers"* will be effective for the year ending January 2019 onwards, and will not impact the Group's profit. The majority of the Group's sales are for standalone products made direct to customers at standard prices either in-store or online. Estimates are already made of anticipated returns and sales awaiting delivery to the customer. Certain income streams totalling around £30m currently netted off costs, will be recognised as statutory revenue on transition to IFRS 15. The alternative performance measure "total sales" will not be adjusted for the impact of IFRS 15.

b. IFRS 9 *"Financial instruments"* will be effective for the year ending January 2019 onwards. IFRS 9 introduces:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising provisions based on expected credit losses; and
- simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Group has completed an assessment of the impact of IFRS 9 and it is expected that adoption will not have a material impact on Consolidated Income Statement or Consolidated Balance Sheet. As a retailer, NEXT is not required to provide against undrawn credit under the "expected credit loss" model of Online customer receivables.

Group Accounting Policies

New Accounting Standards (continued)

c. IFRS 16 *"Leases"* will be effective for the year ending January 2020. The Group has a large portfolio of leased properties and other equipment, including stores and warehouses; the minimum lease commitment on these at the financial year end is disclosed in Note 29.

On the adoption of IFRS 16, lease agreements will give rise to both a right-of-use asset and a lease liability for future lease payables. The right-of-use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the Income Statement over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

There will be no impact on cash flows, although the presentation of the Cash Flow Statement will change significantly, with an increase in cash flows from operating activities being offset by an increase in cash flows from financing activities.

The Group has established a working group to ensure we take all necessary steps to comply with the requirements of IFRS 16. Significant work has been completed to date, including collection of relevant data, changes to IT systems and processes and the determination of relevant accounting policies.

The Group intends to apply the fully retrospective approach on transition and will restate prior year comparatives. Given the complexities of IFRS 16 and the material sensitivity to key assumptions, such as discount rates, it is not yet practicable to fully quantify the effect of IFRS 16 on the financial statements of the Group.

Notes to the Consolidated Financial Statements

1. Segmental Analysis

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Board. The performance of operating segments is assessed on profits before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 *"Share-based payment"* and unrealised foreign exchange gains or losses on derivatives which do not qualify for hedge accounting. The activities, products and services of the operating segments are detailed in the Strategic Report on page 38. 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 (formerly NEXT Directory) 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.

Segment sales and revenue

	52 weeks to 27 January 2018				
	Total sales excluding VAT £m	**Commission sales adjustment £m**	**External revenue £m**	**Internal revenue £m**	**Total segment revenue £m**
NEXT Retail	**2,123.0**	**(1.0)**	**2,122.0**	**5.5**	**2,127.5**
NEXT Online	**1,887.4**	**(59.8)**	**1,827.6**	**–**	**1,827.6**
NEXT International Retail	**67.2**	**–**	**67.2**	**–**	**67.2**
NEXT Sourcing	**6.6**	**–**	**6.6**	**547.8**	**554.4**
	4,084.2	**(60.8)**	**4,023.4**	**553.3**	**4,576.7**
Lipsy	**24.2**	**(1.2)**	**23.0**	**53.9**	**76.9**
Property Management	**9.1**	**–**	**9.1**	**206.2**	**215.3**
Total segment sales/revenue	**4,117.5**	**(62.0)**	**4,055.5**	**813.4**	**4,868.9**
Eliminations	**–**	**–**	**–**	**(813.4)**	**(813.4)**
Total	**4,117.5**	**(62.0)**	**4,055.5**	**–**	**4,055.5**

	52 weeks to 28 January 2017				
	Total sales excluding VAT £m	Commission sales adjustment £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	2,304.6	(3.9)	2,300.7	5.9	2,306.6
NEXT Online	1,728.5	(34.1)	1,694.4	–	1,694.4
NEXT International Retail	63.7	–	63.7	–	63.7
NEXT Sourcing	5.3	–	5.3	599.9	605.2
	4,102.1	(38.0)	4,064.1	605.8	4,669.9
Lipsy	27.1	(1.5)	25.6	38.8	64.4
Property Management	7.6	–	7.6	205.6	213.2
Total segment sales/revenue	4,136.8	(39.5)	4,097.3	850.2	4,947.5
Eliminations	–	–	–	(850.2)	(850.2)
Total	4,136.8	(39.5)	4,097.3	–	4,097.3

Notes to the Consolidated Financial Statements

1. Segmental Analysis (continued)

Segment profit

During the year to January 2018, the recharges between NEXT Retail and NEXT Online were altered to better reflect the costs of the standalone businesses. Prior year segment profit results for 2017 have been restated to provide comparability.

Segment profit	2018 £m	2017 Restated £m	2017 £m
NEXT Retail	**268.7**	353.3	338.7
NEXT Online	**461.2**	429.5	444.1
NEXT International Retail	**7.7**	9.3	9.3
NEXT Sourcing	**33.0**	44.7	44.7
	770.6	836.8	836.8
Lipsy	**6.0**	5.5	5.5
Property Management	**3.6**	6.8	6.8
Total segment profit	**780.2**	849.1	849.1
Central costs and other	**(6.1)**	(9.4)	(9.4)
Share option charge	**(14.1)**	(13.1)	(13.1)
Other (losses)/gains	**(1.1)**	0.1	0.1
Trading profit	**758.9**	826.7	826.7
Share of results of associate and joint venture	**1.0**	1.0	1.0
Finance income	**1.3**	0.3	0.3
Finance costs	**(35.1)**	(37.8)	(37.8)
Profit before tax	**726.1**	790.2	790.2

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	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
NEXT Retail	**390.7**	405.4	**88.6**	138.2	**98.9**	96.0
NEXT Online	**82.3**	88.6	**10.9**	19.0	**17.4**	15.7
NEXT International Retail	**1.0**	0.7	**0.6**	–	**0.2**	0.3
NEXT Sourcing	**2.6**	2.8	**1.1**	1.0	**0.9**	1.0
Lipsy	**3.5**	3.2	**1.0**	0.9	**0.9**	1.0
Property Management	**78.8**	77.9	**2.0**	1.7	**0.3**	0.3
Total	**558.9**	578.6	**104.2**	160.8	**118.6**	114.3

Reporting to the Board with respect to assets includes values measured in a manner consistent with that of these financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Impairment charges in relation to property, plant and equipment are included in the NEXT Retail segment. Segment liabilities have not been disclosed as these are not regularly provided to the CODM.

Analyses of the Group's external revenues (by customer location) and non-current assets (excluding investments, the defined benefit pension surplus, other financial assets and deferred tax assets) by geographical location are detailed below:

External revenue by geographical location	2018 £m	2017 £m
United Kingdom	**3,606.1**	3,713.5
Rest of Europe	**244.5**	218.2
Middle East	**113.8**	88.1
Asia	**60.3**	50.2
Rest of World	**30.8**	27.3
Total	**4,055.5**	4,097.3

Non-current assets by geographical location	2018 £m	2017 £m
United Kingdom	**564.0**	583.0
Rest of Europe	**4.5**	5.3
Middle East	**4.3**	4.3
Asia	**29.0**	29.3
Total	**601.8**	621.9

2. Revenue by Type

	2018 £m	2017 £m
Sale of goods	**3,814.0**	3,866.0
Online account interest	**223.2**	213.7
Royalties	**9.2**	9.9
Rental income	**9.1**	7.7
Revenue	**4,055.5**	4,097.3

Notes to the Consolidated Financial Statements

3. Operating Profit

Group operating profit is stated after charging/(crediting):

	2018 £m	2017 £m
Depreciation on tangible assets	**118.6**	114.3
Loss/(profit) on disposal of property, plant and equipment	**0.8**	(1.2)
Impairment charges on tangible assets	**3.2**	3.2
Amortisation of intangible assets	**0.4**	0.4
Operating lease rentals:		
Minimum lease payments (net of amortisation of incentives)	**225.1**	219.8
Contingent rentals payable	**5.1**	5.8
Customer and other receivables:		
Impairment charge	**28.5**	35.0
Amounts recovered	**(4.2)**	(6.9)
Cost of inventories recognised as an expense	**1,433.9**	1,441.0
Write down of inventories to net realisable value	**116.1**	109.9
	1,550.0	1,550.9

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.

Gains on cash flow hedges removed from equity and included in the Income Statement for the period are £12.3m (2017: £91.2m) included in cost of sales.

Other (losses)/gains reported in the Income Statement represent foreign exchange losses of £1.1m (2017: gains of £0.1m) in respect of derivative contracts which do not qualify for hedge accounting under IAS 39.

Other foreign exchange differences recognised in the Income Statement were gains of £3.4m (2017: £4.2m).

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates, including expenses:

	2018 £000	2017 £000
Auditor's remuneration		
Audit of the financial statements	**262**	240
Audit of subsidiaries	**368**	358
Total audit fees	**630**	598
Other services:		
Tax compliance	**–**	20
Tax advisory services	**–**	10
Other assurance services	**71**	159
	701	787

Audit fees presented in the table above represent auditor's remuneration in respect of PwC and affiliates in the year ended 27 January 2018 and auditor's remuneration in respect of EY and affiliates in the year ended 28 January 2017.

4. Staff Costs and Key Management Personnel

Total staff costs were as follows:

	2018 £m	2017 £m
Wages and salaries	**586.1**	594.6
Social security costs	**42.5**	39.5
Other pension costs	**21.9**	20.5
	650.5	654.6
Share-based payments expense – equity-settled	**14.1**	13.1
Share-based payments benefit – cash-settled	**(5.8)**	(2.3)
	658.8	665.4

Share-based payments comprise Management options, Sharesave options and potential LTIP and SMP awards, details of which are given in Note 22.

In March 2017 the terms and conditions of the cash-settled share-based payment schemes were altered mandating that all awards would be taken as shares. A net credit of £4.8m was recognised in the 2018 financial year on conversion of those share awards from cash-settled to equity-settled.

Total staff costs by business sector were made up as follows:

	2018 £m	2017 £m
NEXT Retail and Online	**604.3**	619.2
NEXT International Retail	**2.0**	1.9
NEXT Sourcing	**29.6**	27.5
Other activities	**22.9**	16.8
Total	**658.8**	665.4

	Average employees		Full-time equivalents	
	2018 Number	2017 Number	2018 Number	2017 Number
NEXT Retail and Online	**39,859**	44,887	**24,265**	26,445
NEXT International Retail	**133**	135	**106**	111
NEXT Sourcing	**3,725**	3,760	**3,725**	3,760
Other activities	**253**	251	**222**	209
Total	**43,970**	49,033	**28,318**	30,525

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:

	2018 £m	2017 £m
Short term employee benefits	**3.1**	2.9
Post-employment benefits	**0.3**	0.3
Share-based payments	**1.5**	(0.4)
	4.9	2.8

Directors' remuneration is detailed in the Remuneration Report.

Notes to the Consolidated Financial Statements

5. Finance Income and Costs

	2018 £m	2017 £m
Interest on bank deposits	**0.1**	0.2
Other fair value movements	**–**	0.1
Other interest receivable	**1.2**	–
Finance income	**1.3**	0.3
Interest on bonds and other borrowings	**35.0**	37.8
Other fair value movements	**0.1**	–
Finance costs	**35.1**	37.8

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 119.

	2018 £m	2017 £m
Current tax:		
Current tax on profits for the year	**147.8**	157.1
Adjustments in respect of prior years	**(12.2)**	–
Total current tax	**135.6**	157.1
Deferred tax:		
Origination and reversal of temporary differences	**(6.3)**	1.1
Adjustments in respect of prior years	**5.0**	(3.3)
Tax expense reported in the Consolidated Income Statement	**134.3**	154.9

Included within the adjustments in respect of prior years is an amount of £3.2m relating to the closure of open tax filings with HMRC.

Factors affecting the tax charge in the year

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

	2018 %	2017 %
UK corporation tax rate	**19.2**	20.0
Non-deductible expenses	**0.5**	0.6
Overseas tax differentials	**(0.2)**	(0.6)
Adjustments in respect of prior years	**(1.0)**	(0.4)
Effective total tax rate on profit before taxation	**18.5**	19.6

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:

	2018 £m	2017 £m
Deferred tax:		
Pension benefit obligation	**7.4**	(0.2)
Fair value movements on derivative instruments	**(14.2)**	(2.0)
Tax (credit) in other comprehensive income	**(6.8)**	(2.2)

	2018 £m	2017 £m
Current tax:		
Share-based payments	**(1.0)**	(2.0)
Deferred tax:		
Share-based payments	**(3.4)**	12.8
Tax (credit)/charge in the Statement of Changes in Equity	**(4.4)**	10.8

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/(liability) is made up of:

	2018 £m	2017 £m
Accelerated capital allowances	**2.5**	(0.4)
Revaluation of derivatives to fair value	**9.1**	(5.2)
Pension benefit obligations	**(18.1)**	(10.7)
Share-based payments	**7.7**	3.3
Other temporary differences	**4.6**	7.3
	5.8	(5.7)

The deferred tax movement in the year is as follows:	2018 £m	2017 £m
At the beginning of the year	**(5.7)**	2.7
Recognised in the Income Statement:		
Accelerated capital allowances	**2.9**	0.7
Revaluation of derivatives to fair value	**0.1**	(0.1)
Pension benefit obligations	**–**	(1.7)
Share-based payments	**1.0**	(2.1)
Other temporary differences	**(2.7)**	5.4
Recognised in Other Comprehensive Income	**6.8**	2.2
Recognised in the Statement of Changes in Equity	**3.4**	(12.8)
At the end of the year	**5.8**	(5.7)

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 2018 £m	Unrecognised deferred tax 2018 £m	Gross value 2017 £m	Unrecognised deferred tax 2017 £m
Capital losses	**27.9**	**4.7**	34.5	5.8

The benefit of unrecognised capital losses will only accrue if taxable profits are realised on future disposals of the Group's capital assets.

Factors affecting tax charges in future years

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

The Group's effective tax rate is forecast to remain broadly in line with the current year.

Provisions, which are immaterial to the accounts, have been recognised in relation to uncertain tax positions. These relate to the interpretation of tax legislation, including changes arising from the OECD's Base Erosion and Profit Shifting project, that impact our NEXT Sourcing operation in its ordinary course of business. Any uncertainty is likely to lessen as the business responds to these rule changes.

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

7. Dividends

Year to 27 January 2018	**Paid**	**Pence per share**	**Cash Flow Statement £m**	**Statement of Changes in Equity £m**
Special interim dividend	2 May 2017	**45p**	**64.3**	**64.3**
Final ordinary dividend for year to Jan 2017	1 Aug 2017	**105p**	**149.3**	**149.3**
Special interim dividend	1 Aug 2017	**45p**	**64.0**	**64.0**
Special interim dividend	1 Nov 2017	**45p**	**63.8**	**63.8**
Interim ordinary dividend for year to Jan 2018	2 Jan 2018	**53p**	**74.8**	**74.8**
Special interim dividend	25 Jan 2018	**45p**	**63.5**	**63.5**
			479.7	**479.7**

Year to 28 January 2017	Paid	Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m
Special interim dividend	1 Feb 2016	60p	88.3	–
Final ordinary dividend for year to Jan 2016	1 Aug 2016	105p	150.2	150.2
Interim ordinary dividend for year to Jan 2017	3 Jan 2017	53p	75.6	75.6
			314.1	225.8

It is intended that this year's ordinary final dividend of 105p per share will be paid to shareholders on 1 August 2018. NEXT plc shares will trade ex-dividend from 5 July 2018 and the record date will be 6 July 2018. The estimated amount payable is £144.0m. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The Trustee of the ESOT has waived dividends paid in the year on shares held by the ESOT.

8. Earnings Per Share

	2018	2017
Basic Earnings Per Share	**416.7p**	441.3p

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.

	2018	2017
Diluted Earnings Per Share	**415.7p**	438.1p

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 4,779,181 non-dilutive share options in the current year (2017: 2,578,878).

	2018	2017
Fully diluted Earnings Per Share	**399.7p**	426.2p

Fully diluted Earnings Per Share is based on the weighted average number of shares used for the calculation of basic Earnings Per Share, increased by the weighted average total employee share options outstanding during the period. Underlying fully diluted Earnings Per Share is used for the purposes of the Share Matching Plan, described further in Note 22.

The table below shows the key variables used in the Earnings Per Share calculations:

	2018	2017
Profit after tax attributable to equity holders of the Parent Company (£m)	**591.8**	635.3
Weighted average number of shares (millions)		
Weighted average shares in issue	**146.7**	148.4
Weighted average shares held by ESOT	**(4.7)**	(4.4)
Weighted average shares for basic EPS	**142.0**	144.0
Weighted average dilutive potential shares	**0.4**	1.0
Weighted average shares for diluted EPS	**142.4**	145.0
Weighted average shares for basic EPS	**142.0**	144.0
Weighted average total share options outstanding	**6.0**	5.1
Weighted average shares for fully diluted EPS	**148.0**	149.1

As detailed in the Remuneration Report, the annual bonus for executive directors is determined by reference to underlying pre-tax Earnings per Share of 511.3p (2017: 548.9p). This is calculated using 52 week underlying pre-tax profit of £726.1m (2017: £790.2m) 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 2016	**77.4**	**9.4**	**1,596.9**	**1,683.7**
Exchange movement	–	–	1.6	1.6
Additions	1.8	–	159.0	160.8
Disposals	(0.8)	–	(54.2)	(55.0)
At January 2017	**78.4**	**9.4**	**1,703.3**	**1,791.1**
Exchange movement	–	–	(1.4)	(1.4)
Additions	2.0	–	102.2	104.2
Disposals	(0.9)	–	(75.6)	(76.5)
At January 2018	**79.5**	**9.4**	**1,728.5**	**1,817.4**
Depreciation				
At January 2016	**8.0**	**1.6**	**1,137.7**	**1,147.3**
Exchange movement	–	–	1.3	1.3
Provided during the year	0.2	–	114.1	114.3
Impairment charge	–	–	3.2	3.2
Disposals	–	–	(53.6)	(53.6)
At January 2017	**8.2**	**1.6**	**1,202.7**	**1,212.5**
Exchange movement	–	–	(1.1)	(1.1)
Provided during the year	0.2	–	118.4	118.6
Impairment charge	–	–	3.2	3.2
Disposals	–	–	(74.7)	(74.7)
At January 2018	**8.4**	**1.6**	**1,248.5**	**1,258.5**
Carrying amount				
At January 2018	**71.1**	**7.8**	**480.0**	**558.9**
At January 2017	70.2	7.8	500.6	578.6
At January 2016	69.4	7.8	459.2	536.4

At January 2018 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £12.8m (2017: £14.2m).

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 2016, January 2017 and January 2018	**4.0**	**44.2**	**48.2**
Amortisation and impairment			
At January 2016	**2.9**	**1.6**	**4.5**
Amortisation provided during the year	0.4	–	0.4
At January 2017	**3.3**	**1.6**	**4.9**
Amortisation provided during the year	0.4	–	0.4
At January 2018	**3.7**	**1.6**	**5.3**
Carrying amount			
At January 2018	**0.3**	**42.6**	**42.9**
At January 2017	0.7	42.6	43.3
At January 2016	1.1	42.6	43.7

The carrying amount of goodwill is allocated to the following cash generating units:

	2018 £m	2017 £m
NEXT Sourcing	**30.5**	30.5
Lipsy	**12.1**	12.1
	42.6	42.6

Goodwill is tested for impairment at the balance sheet date on the basis of value in use calculations. As this exceeded carrying value for each of the cash generating units concerned, no impairment loss was recognised (2017: £nil).

NEXT Sourcing

The key assumptions in testing the goodwill for impairment are the future sourcing requirements of the Group and the ability of NEXT Sourcing to meet these requirements based on past experience. In assessing value in use, budgets for the next year were used and extrapolated for four further years using a growth rate of -10% (2017: 0% growth rate) and discounted at 10% (2017: 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% (2017: 2%) and discounted at 12% (2017: 12%).

For both NEXT Sourcing and Lipsy, the calculated value in use significantly exceeded the carrying value of the goodwill. Therefore, there is no reasonably possible change in any of the key assumptions that would give rise to an impairment.

Notes to the Consolidated Financial Statements

11. Customer and Other Receivables

	2018 £m	2017 £m
Online customer receivables	**1,255.6**	1,139.3
Less: allowance for doubtful debts	**(138.7)**	(137.5)
	1,116.9	1,001.8
Other trade receivables	**21.7**	23.6
Less: allowance for doubtful debts	**(0.1)**	(0.3)
	1,138.5	1,025.1
Prepayments	**94.2**	91.7
Other debtors	**13.4**	8.6
Amounts due from associate and joint venture	**2.1**	0.4
	1,248.2	1,125.8

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

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

Management consider the credit quality of customer receivables that are neither past due nor impaired can best be assessed by reference to the historical default rate for the preceding 365 days of approximately 1% (2017: 1%). £Nil (2017: £nil) of customer and other receivables are past due but not impaired.

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.

The Group does not hold any collateral over these balances.

Ageing of customer and other trade receivables:

	2018 £m	2017 £m
Not past due	**1,137.9**	1,043.6
1 – 30 days past due	**42.8**	33.2
31 – 60 days past due	**9.9**	8.8
61 – 90 days past due	**5.3**	4.9
91 – 120 days past due	**6.9**	4.4
Over 120 days past due	**58.1**	55.3
Otherwise impaired	**16.4**	12.7
Total customer and other trade receivables	**1,277.3**	1,162.9

Movement in the allowance for doubtful debts:

	2018 £m	2017 £m
Opening position	**137.8**	162.5
Charged to the Income Statement	**28.5**	35.0
Written off as uncollectible	**(23.3)**	(52.8)
Recovered during the year	**(4.2)**	(6.9)
Closing position	**138.8**	137.8

12. Other Financial Assets

	2018 Current £m	2018 Non-current £m	2017 Current £m	2017 Non-current £m
Foreign exchange contracts	**5.7**	**–**	34.0	–
Interest rate derivatives	**–**	**48.1**	–	57.3
	5.7	**48.1**	34.0	57.3

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 24). These instruments are primarily for US Dollars and Euros. Interest rate derivatives relate to the corporate bonds (refer to Note 17).

13. Cash and Short Term Deposits

	2018 £m	2017 £m
Cash at bank and in hand	**52.8**	49.7
Short term deposits	**0.7**	–
	53.5	49.7

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

14. Bank Loans and Overdrafts

	2018 £m	2017 £m
Bank overdrafts and short term borrowings	**45.0**	35.3
Unsecured committed bank loans	**135.0**	–
	180.0	35.3

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 24).

15. Trade Payables and Other Liabilities

	2018 Current £m	2018 Non-current £m	2017 Current £m	2017 Non-current £m
Trade payables	**168.4**	**–**	186.1	–
Other taxation and social security	**62.4**	**–**	62.5	–
Deferred revenue from sale of gift cards	**78.1**	**–**	77.3	–
Property lease incentives	**32.6**	**218.1**	31.9	212.9
Share-based payment liability	**0.8**	**0.7**	1.9	5.6
Other creditors and accruals	**237.9**	**14.0**	256.1	8.4
	580.2	**232.8**	615.8	226.9

Trade payables do not bear interest and are generally settled on 30 day terms. Other creditors and accruals do not bear interest. Property lease incentives are classified as non-current to the extent that they will be credited to the Income Statement more than one year from the balance sheet date.

Notes to the Consolidated Financial Statements

16. Other Financial Liabilities

	2018 Current £m	2018 Non-current £m	2017 Current £m	2017 Non-current £m
Foreign exchange contracts	59.3	–	3.2	–
Interest rate derivatives	–	12.4	–	16.5
	59.3	12.4	3.2	16.5

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 (Note 24). These instruments are primarily for US Dollars and Euros. Interest rate derivatives relate to the corporate bonds (Note 17).

17. Corporate Bonds

	Balance Sheet value 2018 £m	Balance Sheet value 2017 £m	Nominal value 2018 £m	Nominal value 2017 £m
Corporate bond 5.375% repayable 2021	328.4	329.5	325.0	325.0
Corporate bond 4.375% repayable 2026	280.1	284.0	250.0	250.0
Corporate bond 3.625% repayable 2028	300.0	300.0	300.0	300.0
	908.5	913.5	875.0	875.0

The Group uses interest rate derivatives to manage the interest rate risk associated with its bonds, the profile of which is shown below:

	2018 Nominal value £m	2018 Aggregate interest rate	2017 Nominal value £m	2017 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	
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	875.0		875.0	

Interest rate risk management is explained in Note 24 and the fair values of the corporate bonds are shown in Note 26.

18. Pension Benefits

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

The Group's UK pension arrangements include defined benefit and defined contribution sections. The Original Plan and 2013 Plan are established under trust law and comply with all relevant UK legislation. Pension assets are held in separate trustee administered funds which have equal pension rights with respect to members of either sex in so far as this is required by current legislation. The defined benefit section was closed to new members in 2000 and over recent years the Group has taken steps to manage the ongoing risks associated with its defined benefit liabilities.

The Group also provides additional retirement benefits through the SPA to some plan members whose benefits would otherwise be affected by the lifetime allowance.

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

The 2013 Plan was established in 2013 via the transfer of liabilities and assets from the Original Plan. This arrangement provides benefits to the majority of members whose pensions were not insured with Aviva. From November 2012, the future accrual of benefits for remaining active employee members has been based on pensionable earnings frozen at that time, rather than final earnings.

Further information on the Group's pension arrangements is given in the Remuneration Report on page 79.

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. The strategic allocation of assets in the 2013 Plan is currently weighted towards equity assets as its liability profile is relatively immature and it is expected that these asset classes will, over the long term, outperform gilts and corporate bonds.
Interest rate risk	A fall in corporate bond yields would increase the value of the liabilities. This would be only partially offset by an increase in the value of bond investments held.
Inflation risk	Pensions in payment are increased annually in line with RPI or CPI for Guaranteed Minimum Pensions built up since 1988. Pensions built up since 2005 are capped at 2.5% and pensions built up between 1997 and 2005 are capped at 5%. When discretionary increases have been awarded for pensions built up before 1997, they too have tended to reflect RPI, capped at 2.5%. Therefore an increase in inflation would increase the value of pension liabilities. The assets would be expected to also increase, to the extent that they are linked to inflation, but this would not be expected to fully match the increase in liabilities.
Longevity risk	The present value of the defined benefit liabilities is calculated having regards to a best estimate of the mortality of plan members. If members live longer than this mortality assumption, this will increase the liabilities.

The buy-in insurance contracts represent over 99% of the Original Plan pension liabilities and 18% 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.

Notes to the Consolidated Financial Statements

18. Pension Benefits (continued)

Income statement

The components of the net defined benefit expense recognised in the Consolidated Income Statement are as follows:

	2018 2013 Plan £m	2018 Original Plan £m	2018 SPA £m	2018 Total £m	2017 2013 Plan £m	2017 Original Plan £m	2017 SPA £m	2017 Total £m
Current service cost	8.3	–	0.4	8.7	7.4	–	0.4	7.8
Net interest	(2.2)	–	0.5	(1.7)	(2.2)	–	0.4	(1.8)
Administration costs	1.4	0.1	–	1.5	1.8	0.1	–	1.9
Net defined benefit expense	7.5	0.1	0.9	8.5	7.0	0.1	0.8	7.9

Other comprehensive income

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

	2018 2013 Plan £m	2018 Original Plan £m	2018 SPA £m	2018 Total £m	2017 2013 Plan £m	2017 Original Plan £m	2017 SPA £m	2017 Total £m
Actuarial gains/(losses) due to liability experience	4.4	(0.2)	0.4	4.6	12.2	2.4	(1.6)	13.0
Actuarial losses due to liability assumption changes	(15.4)	(1.7)	(0.2)	(17.3)	(121.9)	(11.8)	(1.9)	(135.6)
	(11.0)	(1.9)	0.2	(12.7)	(109.7)	(9.4)	(3.5)	(122.6)
Return on plan assets greater than discount rate	54.1	2.0	–	56.1	108.8	11.4	–	120.2
Actuarial gains/(losses) recognised in other comprehensive income	43.1	0.1	0.2	43.4	(0.9)	2.0	(3.5)	(2.4)

Balance sheet valuation

The net defined benefit pension asset/(liability) recognised in the Consolidated Balance Sheet is analysed as follows:

	2018 2013 Plan £m	2018 Original Plan £m	2018 SPA £m	2018 Total £m	2017 2013 Plan £m	2017 Original Plan £m	2017 SPA £m	2017 Total £m
Present value of benefit obligations	(667.3)	(146.0)	(17.0)	(830.3)	(646.6)	(148.0)	(16.3)	(810.9)
Fair value of plan assets	788.5	148.0	–	936.5	723.8	150.0	–	873.8
Net pension asset/(liability)	121.2	2.0	(17.0)	106.2	77.2	2.0	(16.3)	62.9

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.

18. Pension Benefits (continued)

Plan obligations

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

	2018				2017			
	2013 Plan £m	Original Plan £m	SPA £m	Total £m	2013 Plan £m	Original Plan £m	SPA £m	Total £m
Opening obligation	646.6	148.0	16.3	810.9	521.3	146.1	12.0	679.4
Current service cost	8.3	–	0.4	8.7	7.4	–	0.4	7.8
Interest cost	17.9	3.8	0.5	22.2	18.8	4.7	0.4	23.9
Employee contributions	0.1	–	–	0.1	0.1	–	–	0.1
Benefits paid	(16.6)	(7.7)	–	(24.3)	(13.5)	(9.4)	–	(22.9)
Transfers between plans	–	–	–	–	2.8	(2.8)	–	–
Actuarial (gains)/losses								
– financial assumptions	32.5	3.9	(0.4)	36.0	113.3	12.0	1.9	127.2
– experience	(4.4)	0.2	(0.4)	(4.6)	(12.2)	(2.4)	1.6	(13.0)
– demographic assumptions	(17.1)	(2.2)	0.6	(18.7)	8.6	(0.2)	–	8.4
Closing obligation	667.3	146.0	17.0	830.3	646.6	148.0	16.3	810.9

The present value of the defined benefit closing obligation of £830.3m was comprised of approximately 28% relating to active participants, 47% relating to deferred participants and 25% relating to pensioners.

Plan assets

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

	2018				2017			
	2013 Plan £m	Original Plan £m	SPA £m	Total £m	2013 Plan £m	Original Plan £m	SPA £m	Total £m
Opening assets	723.8	150.0	–	873.8	579.2	146.2	–	725.4
Employer contributions	8.4	–	–	8.4	27.2	–	–	27.2
Employee contributions	0.1	–	–	0.1	0.1	–	–	0.1
Benefits paid	(16.6)	(7.7)	–	(24.3)	(13.5)	(9.4)	–	(22.9)
Transfers between plans	–	–	–	–	2.8	(2.8)	–	–
Interest income on assets	20.1	3.8	–	23.9	21.0	4.7	–	25.7
Return on plan assets (excluding amounts included in interest)	54.1	2.0	–	56.1	108.8	11.4	–	120.2
Administrative costs	(1.4)	(0.1)	–	(1.5)	(1.8)	(0.1)	–	(1.9)
Closing assets	788.5	148.0	–	936.5	723.8	150.0	–	873.8

Notes to the Consolidated Financial Statements

18. Pension Benefits (continued)

Plan assets (continued)

The fair value of plan assets was as follows:

	2018				2017			
	2013 Plan £m	Original Plan £m	Total £m	%	2013 Plan £m	Original Plan £m	Total £m	%
Equities	**369.4**	**–**	**369.4**	**39.4**	459.2	1.5	460.7	52.8
Equity-linked bonds	**62.6**	**–**	**62.6**	**6.7**	95.4	–	95.4	10.9
Bonds	**102.4**	**–**	**102.4**	**10.9**	53.0	–	53.0	6.1
Gilts	**187.8**	**2.2**	**190.0**	**20.3**	61.4	0.7	62.1	7.1
Property	**56.0**	**–**	**56.0**	**6.0**	29.2	–	29.2	3.3
Insurance contracts	**–**	**145.8**	**145.8**	**15.6**	–	147.8	147.8	16.9
Cash and cash equivalents	**10.3**	**–**	**10.3**	**1.1**	25.6	–	25.6	2.9
	788.5	**148.0**	**936.5**	**100.0**	723.8	150.0	873.8	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 2018 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

	2018		2017	
	Original Plan	2013 and SPA	Original Plan	2013 and SPA
Discount rate	**2.40%**	**2.50%**	2.65%	2.80%
Inflation – RPI	**3.45%**	**3.20%**	3.60%	3.40%
Inflation – CPI	**2.45%**	**2.20%**	2.60%	2.40%
Salary increases	**–**	**–**	–	–
Pension increases in payment				
– RPI with a maximum of 5.0%	**3.15%**	**3.00%**	3.25%	3.10%
– RPI with a maximum of 2.5% and discretionary increases	**2.05%**	**1.95%**	2.10%	2.00%

	2018		2017	
	Pensioner aged 65	Non-pensioner aged 45	Pensioner aged 65	Non-pensioner aged 45
Life expectancy at age 65 (years)				
Male	**22.7**	**24.5**	22.9	23.3
Female	**25.0**	**26.7**	25.3	25.8

The discount rate has been derived as the single average discount rate appropriate to the term of the liabilities, based on the yields available on high quality Sterling corporate bonds. The expected average duration of the Original Plan's liabilities is 13 years and for the SPA and 2013 Plans it is 26 years.

The rate of retail price inflation (RPI) has been derived in a consistent way to the discount rate, so that it is appropriate to the term of the liabilities. As in previous years, the RPI assumption for the 2013 and SPA allow for the inflation risk premium of 0.2% per annum whereas that for the Original Plan does not, because its assets and liabilities are almost fully matched.

18. Pension Benefits (continued)

Principal assumptions (continued)

The rate of consumer price inflation (CPI) is set at 1.0% lower than the assumption for retail price inflation, reflecting the long term expected gap between the two indices.

For the 2013 Plan and the SPA, the base mortality assumptions reflect the best estimate output from a postcode mortality study. This results in an assumption in line with the standard SAPS Series 2 All Pensioner tables (with a multiplier of 95% for males and 92% for females) with improvements in line with the CMI 2015 Core Projection model with a long term trend towards 1.5% per annum from 2007 to 2016. Future improvements from 2016 have been allowed for in line with the most recent CMI 2016 core projection model with a long term trend towards 1.5% per annum.

The base mortality assumption for the Original Plan is in line with the standard SAPS Series 1 All Pensioner tables with medium cohort improvements to 2009 and CMI 2013 improvements with a long term trend towards 1.5% per annum from 2009 to 2016. Future improvements from 2016 have been allowed for in line with the most recent CMI 2016 core projection model, 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 27 January 2018**
Discount rate	0.5% decrease	£89.2m decrease
Price inflation	0.5% increase to RPI and CPI	£48.6m decrease
Price inflation	0.1% decrease to CPI (i.e. increase in the gap between RPI and CPI)	£4.4m increase
Mortality	Life expectancy increased by one year	£21.9m decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. Aside from the matching insurance contracts held in the Original Plan, no allowance has been made for any change in assets that might arise under any of the scenarios set out above. When calculating the sensitivity of the defined benefit obligation to changes in the significant assumptions, the same method has been applied as when calculating the pension liability recognised within the Consolidated Balance Sheet. The inflation assumption impacts the "pension increases in payment" and deferred pension calculations.

The sensitivities shown are just one possible outcome and should not be taken as an indication of the likelihood of a change occurring in the future. Economic markets have been particularly volatile in recent months and market metrics used to derive the discount rate and price inflation assumptions could increase or decrease in the future, by more or less than the change set out.

Full actuarial valuation

The latest full actuarial valuation of the 2013 Plan was undertaken as at 30 September 2016 by Willis Towers Watson (who act as Actuary to the Trustees). The valuation showed a funding deficit on the Technical Provisions basis required by legislation of £70.2m at that date.

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

At 31 December 2017 the 2013 Plan was estimated to be fully funded on a Technical Provisions basis with a surplus in the region of £37m, therefore a deficit contribution was not payable in January 2018.

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

Notes to the Consolidated Financial Statements

18. Pension Benefits (continued)

Contributions

Members of the Defined Benefit Section of the 2013 Plan contribute 3% or 5% of pensionable earnings. With effect from January 2018, employer contributions increased from 17.5% per annum to 31.3% (c£6m to c£8m) per annum. Members of the defined contribution section contribute 3% or 5% of pensionable earnings which is matched by the Group.

Contributions paid by the Group are set out below:

	2018 £m	2017 £m
Defined contribution – recognised as an expense	**11.6**	10.8
Automatic enrolment – recognised as an expense	**1.8**	1.8
Defined benefit	**8.4**	27.2
	21.8	39.8

The £27.2m paid into the defined benefit section of the 2013 Plan in 2017 included an additional contribution of £14m paid in respect of the recovery plan agreed with the Trustees following the September 2016 full actuarial valuation and a prepayment of contributions of £6m for the cost of future accrual in the year to January 2018.

Employer contributions to the defined benefit section in the year ahead are expected to be around £22m assuming a contribution of £14m is paid in January 2019, although in practice this is contingent on there being a deficit on a funding (Technical Provisions) basis at this time (refer to details in Full actuarial valuation section above). Employer contributions for the defined contribution scheme is expected to be similar in the year ahead. Employer contributions for the automatic enrolment scheme are expected to increase to around £9m, including salary sacrifice contributions.

19. Provisions

	Vacant property costs	
	2018 £m	2017 £m
At the beginning of the year	**6.7**	7.3
Provisions made in the year	**7.0**	4.4
Utilisation of provisions	**(2.0)**	(1.8)
Release of provisions	**(1.6)**	(3.4)
Unwind of discount	**0.3**	0.2
At the end of the year	**10.4**	6.7

Provision is made for the committed cost of future rentals or estimated exit costs of properties no longer occupied by the Group. The average remaining lease term for these properties is 8 years (2017: 11 years).

20. Share Capital

	2018 Shares '000	2017 Shares '000	2018 £m	2017 £m
Allotted, called up and fully paid				
Ordinary shares of 10p each				
At the start of the year	**147,057**	150,670	**14.7**	15.1
Purchased for cancellation in the year	**(2,175)**	(3,613)	**(0.2)**	(0.4)
At the end of the year	**144,882**	147,057	**14.5**	14.7

The table below shows the movements in equity from share purchases and commitments during the year:

	2018		2017	
	Shares '000	Cost £m	Shares '000	Cost £m
Shares purchased for cancellation in the year	**2,175**	**106.1**	3,613	187.6
Amount shown in Statement of Changes in Equity		**106.1**		187.6

Subsequent to the end of the financial year and before the start of the closed period, the Company purchased for cancellation 1,403,228 shares at a cost of £69.1m.

21. Other Reserves

Other reserves in the Consolidated Balance Sheet comprise the reserve created on reduction of share capital through a Scheme of Arrangement under Section 425 of the Companies Act 1985 (£1,460.7m) less share premium account (£3.8m) and capital redemption reserve (£8.7m) at the time of a capital reconstruction in 2002, plus the accumulated amount of goodwill arising on acquisition after taking into account subsequent disposals (£0.7m), less the unrealised component of revaluations of properties arising under previous accounting standards (£5.1m) as at the date of transition to IFRS.

22. 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 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:

	2018		2017	
	No. of options	**Weighted average exercise price**	No. of options	Weighted average exercise price
Outstanding at beginning of year	**5,064,951**	**£47.61**	4,624,159	£47.60
Granted	**1,696,653**	**£41.31**	2,129,400	£45.54
Exercised	**(411,350)**	**£28.49**	(883,097)	£33.94
Forfeited	**(767,459)**	**£47.46**	(805,511)	£56.97
Outstanding at end of year	**5,582,795**	**£47.12**	5,064,951	£47.61
Exercisable at end of year	**1,610,693**	**£45.06**	1,392,536	£31.90

Notes to the Consolidated Financial Statements

22. Share-based Payments (continued)

Management and Sharesave options (continued)

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

	2018		2017	
	No. of options	**Weighted average remaining contractual life (years)**	No. of options	Weighted average remaining contractual life (years)
Exercise price range				
£10.81 – £38.25	**1,290,078**	**2.8**	1,889,021	3.6
£41.09	**1,257,902**	**9.2**	–	–
£41.12 – £42.08	**917,899**	**4.3**	757,351	5.3
£54.10 – £59.76	**1,024,461**	**6.9**	1,219,448	7.4
£66.95 – £70.80	**1,092,455**	**6.7**	1,199,131	7.7
	5,582,795	**6.0**	5,064,951	5.7

Share Matching Plan (SMP)

The SMP is an equity-settled scheme open to a small number of senior executives below Board level. From January 2014, executive directors are no longer granted SMP awards. Participants who invest a proportion of any annual cash bonus in NEXT shares will receive up to a maximum of two times the original number of shares they purchase with their bonus. Any matching is conditional upon achieving performance measures over the following three years. The maximum matching ratio available under the SMP rules is 3:1, matching the pre-tax equivalent of the amount invested in shares. For any SMP grants made from 2018, participants will be entitled to receive ordinary and special dividend accruals on any awards vesting under the SMP.

The Remuneration Committee's policy is to set performance measures by reference to underlying fully diluted post-tax EPS but the Committee has flexibility to use different measures. Under the formulae, a notional adjustment is made to actual EPS achieved for special dividends, on the basis that the cash distributed had instead been used to purchase shares at the prevailing share price on the day of the special dividend payment.

The following table summarises the movements in nil cost SMP options during the year:

	2018 No. of options	2017 No. of options
Outstanding at beginning of year	**76,946**	85,657
Granted	**17,298**	15,002
Exercised	**(43,228)**	(21,081)
Forfeited	**(5,452)**	(2,632)
Outstanding at end of year	**45,564**	76,946
Exercisable at end of year	**–**	21,390

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

Long Term Incentive Plan (LTIP)

As explained in the Remuneration Report, the Group operates an LTIP scheme for executive directors and other senior executives. Prior to January 2014, all LTIP awards were accounted for as cash-settled share-based payments. From January 2014 onwards, new LTIP grants to executive directors are settled in shares with no cash-settlement alternative. Awards to other senior executives were generally cash-settled until March 2017, since that date they are settled in shares. As a result, all LTIP awards were accounted for under IFRS 2 as equity-settled in the year ended 27 January 2018. Performance conditions for the LTIP awards are detailed in the Remuneration Report.

22. Share-based Payments (continued)

Equity-settled LTIP awards

The following table summarises the movements in nil cost equity-settled LTIP awards during the year:

	2018 No. of awards	2017 No. of awards
Outstanding at beginning of year	**164,783**	100,745
Granted	**222,467**	64,038
Vested	**(12,752)**	–
Forfeited	**(134,668)**	–
Change in accounting (cash to equity)	**247,612**	–
Outstanding at end of year	**487,442**	164,783

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

Cash-settled LTIP awards

The following table summarises the movements in cash-settled LTIP awards during the year:

	2018 No. of awards	2017 No. of awards
Outstanding at beginning of year	**247,612**	338,760
Granted	–	92,912
Vested	–	(114,345)
Forfeited	–	(69,715)
Change in accounting (cash to equity)	**(247,612)**	–
Outstanding at end of year	–	247,612

A credit of £5.8m for the year (2017: credit of £2.3m) has been made in the accounts in respect of cash-settled LTIP grants, of which a credit of £0.1m (2017: credit of £2.1m) related to the executive directors. The weighted average remaining contractual life of these awards in 2018 was nil years (2017: 1.4 years).

Fair value calculations

The fair value of Management, Sharesave and SMP options granted is calculated at the date of grant using a Black-Scholes option pricing model. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equivalent to the expected life of the option. The expected life applied in the model is based on historical analyses of exercise patterns, taking into account any early exercises. The following table lists the inputs to the model used for options granted in the years ended 27 January 2018 and 28 January 2017 based on information at the date of grant:

Management share options (granted in April)	2018	2017
Share price at date of grant	**£41.09**	£54.10
Exercise price	**£41.09**	£54.10
Volatility	**25.90%**	20.60%
Expected life	**4 years**	4 years
Risk free rate	**0.32%**	0.64%
Dividend yield	**3.85%**	2.83%
Weighted average fair value per option	**£5.35**	£6.22

Notes to the Consolidated Financial Statements

22. Share-based Payments (continued)

Fair value calculations (continued)

Sharesave plans (granted in October)	2018	2017
Share price at date of grant	**£52.60**	£47.81
Exercise price	**£42.08**	£38.25
Volatility	**29.20%**	25.22%
Expected life	**3.3 years**	3.3 years
Risk free rate	**0.63%**	0.31%
Dividend yield	**3.00%**	3.30%
Weighted average fair value per option	**£12.77**	£10.04

SMP (granted in May)	2018	2017
Share price at date of grant	**£41.85**	£52.65
Exercise price	**Nil**	Nil
Volatility	**27.80%**	21.53%
Expected life	**3 years**	3 years
Risk free rate	**0.21%**	0.58%
Dividend yield	**3.78%**	2.91%
Weighted average fair value per option	**£37.37**	£48.25

The fair value of equity-settled LTIP awards granted is calculated at the date of grant using a Monte Carlo option pricing model. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equivalent to the life of the award. The following table lists the inputs to the model used for awards granted in the year ended 27 January 2018 and 28 January 2017 based on information at the date of grant:

Equity-settled LTIP awards (granted in March)	2018	2017
Share price at date of grant	**£41.99**	£56.35
Award price	**Nil**	Nil
Volatility	**27.10%**	20.92%
Life of award	**3 years**	3 years
Risk free rate	**0.30%**	0.64%
Dividend yield	**3.76%**	2.72%
Fair value per award	**£16.74**	£23.27

Equity-settled LTIP awards (granted in September)	2018	2017
Share price at date of grant	**£50.45**	£50.05
Award price	**Nil**	Nil
Volatility	**29.40%**	24.54%
Life of award	**3 years**	3 years
Risk free rate	**0.52%**	0.16%
Dividend yield	**0.00%**	3.16%
Fair value per award	**£23.45**	£20.60

From September 2017, for all new LTIP awards, dividend accruals (both in respect of special and ordinary dividends) may be payable on vested awards.

23. Shares Held by ESOT

The NEXT 2003 Employee Share Ownership Trust (ESOT) has an independent trustee resident in Jersey and provides for the issue of shares to Group employees, including share issues under share options, at the discretion of the Trustee. All Management and Sharesave options which were exercised during the year were satisfied by shares issued from the ESOT.

At 27 January 2018 the ESOT held 4,826,665 (2017: 4,414,892) ordinary shares of 10p each in the Company, the market value of which amounted to £251.8m (2017: £170.0m). Details of outstanding share options are shown in Note 22.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOT at 27 January 2018 and 28 January 2017 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:

	2018		2017	
	Shares '000	£m	Shares '000	£m
Shares purchased by ESOT in the year	842	37.0	978	50.9
Shares issued on employee option exercises	431	10.3	911	30.5

Proceeds of £11.3m (2017: £29.9m) were received on the exercise of Management and Sharesave options. The amount shown in the Statement of Changes in Equity of £10.3m (2017: £30.5m) is after the issue of nil cost LTIP, SMP and Deferred bonus shares. The weighted average cost of shares issued by the ESOT was £20.8m (2017: £44.2m).

At 22 March 2018, employee share options over 14,812 shares had been exercised subsequent to the balance sheet date and had been satisfied by ordinary shares issued by the ESOT.

24. Financial Instruments: Risk Management and Hedging Activities

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 includes cash, short term deposits, bank overdrafts, loans, and corporate bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

Liquidity risk

The Group manages its cash and borrowing requirements centrally to minimise net interest expense within risk parameters agreed by the Board, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses. The forecast cash and borrowings profile of the Group is monitored to ensure that adequate headroom remains under committed borrowing facilities.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities, including cash flows in respect of derivatives:

2018	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	180.0	–	–	–	180.0
Trade and other payables	382.4	12.8	–	–	395.2
Corporate bonds	39.3	39.3	425.4	659.0	1,163.0
	601.7	52.1	425.4	659.0	1,738.2
Derivatives: net settled	(7.0)	(5.8)	(12.3)	(10.7)	(35.8)
Derivatives: gross settled					
Cash inflows	(1,051.7)	–	–	–	(1,051.7)
Cash outflows	1,114.8	–	–	–	1,114.8
Total cash flows	657.8	46.3	413.1	648.3	1,765.5

Notes to the Consolidated Financial Statements

24. Financial Instruments: Risk Management and Hedging Activities (continued)

Liquidity risk (continued)

2017	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	35.3	–	–	–	35.3
Trade and other payables	479.4	7.7	–	–	487.1
Corporate bonds	39.3	39.3	442.8	680.8	1,202.2
	554.0	47.0	442.8	680.8	1,724.6
Derivatives: net settled	(7.2)	(7.1)	(18.2)	(16.9)	(49.4)
Derivatives: gross settled					
Cash inflows	(1,106.0)	–	–	–	(1,106.0)
Cash outflows	1,067.9	–	–	–	1,067.9
Total cash flows	508.7	39.9	424.6	663.9	1,637.1

At 27 January 2018, the Group had borrowing facilities of £525.0m (2017: £525.0m) in respect of which all conditions precedent have been met. £225.0m is committed until September 2020 and a further £300.0m is committed until November 2022. £135.0m of this facility was drawn down at January 2018 (2017: £nil).

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 bank 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 reduce 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 of part of the interest rate risk associated with the corporate bonds. Under the terms of the swaps, which have the same key features as the bonds, the Group receives a fixed rate of interest equivalent to the relevant coupon rate, and pays a variable rate. The Group also has interest rate swaps where the Group receives a variable rate of interest, and pays a fixed rate. Details of the aggregate rates payable are given in Note 17.

The fair values of the Group's interest rate swaps, including accrued interest, are as follows:

	2018 £m	2017 £m
Derivatives in designated fair value hedging relationships	**35.7**	40.8

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.

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 27.

24. Financial Instruments: Risk Management and Hedging Activities (continued)

Foreign currency hedges

The fair values of foreign exchange derivatives are as follows:

	2018 £m	2017 £m
Derivatives in designated hedging relationships	**(51.8)**	31.6
Other foreign exchange derivatives	**(1.8)**	(0.8)
Total foreign exchange derivatives	**(53.6)**	30.8

The total notional amount of outstanding foreign exchange contracts at the balance sheet date is as follows:

	2018 £m	2017 £m
US Dollar	**963.9**	1,003.4
Euro	**44.7**	39.2
Other	**43.1**	63.3
	1,051.7	1,105.9

Credit risk

Investments of cash surpluses, borrowing commitments and other contracts in financial instruments 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. All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts. The concentration of credit risk is limited due to the Online customer base being large and diverse. The Group's outstanding receivables balances are detailed in Note 11.

Capital risk

The capital structure of the Group consists of debt, as analysed in Note 28, 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 long term growth in Earnings Per Share, 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.

25. Financial Instruments: Categories

	2018 £m	2017 £m
Financial assets		
Derivatives at fair value through profit and loss – held for trading	**2.4**	–
Derivatives in designated hedging relationships	**51.4**	91.3
Loans and receivables	**1,153.0**	1,033.2
Cash and short term deposits	**53.5**	49.7
Available for sale financial assets	**1.0**	1.0
Financial liabilities		
Derivatives at fair value through profit and loss – held for trading	**(4.2)**	(0.8)
Derivatives in designated hedging relationships	**(67.5)**	(18.9)
Corporate bonds	**(908.5)**	(913.5)
Amortised cost	**(575.2)**	(446.3)

All derivatives are categorised as Level 2 under the requirements of IFRS 13 *"Fair value measurement"*, as they are valued using techniques based significantly on observed market data.

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26. Financial Instruments: Fair Values

The fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's Balance Sheet, other than as noted below:

	2018 Carrying amount £m	2018 Fair value £m	2017 Carrying amount £m	2017 Fair value £m
Corporate bonds				
In hedging relationships	**458.5**	**478.8**	463.5	478.5
Not in hedging relationships	**450.0**	**487.9**	450.0	481.3
	908.5	**966.7**	913.5	959.8

Corporate bonds are held at amortised cost adjusted for the effect of the change in fair value hedge.

The fair values of corporate bonds are their market values at the balance sheet date (IFRS 13 Level 1) reflecting quoted (unadjusted) prices in active markets for identical assets or liabilities. Market values include accrued interest and changes in credit risk and interest rate risk, and are therefore different to the reported carrying amounts.

27. Financial Instruments: Sensitivity Analysis

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 year end 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 2018 £m	Income statement 2017 £m	Equity 2018 £m	Equity 2017 £m
Sterling strengthens by 10%				
US Dollar	**(1.6)**	(3.6)	**(46.5)**	(64.2)
Euro	**–**	–	**(2.7)**	(2.2)
Sterling weakens by 10%				
US Dollar	**1.8**	(0.4)	**57.8**	73.0
Euro	**–**	–	**3.3**	2.7

Year end exchange rates applied in the above analysis are US Dollar 1.42 (2017: 1.25) and Euro 1.14 (2017: 1.17). 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.

27. Financial Instruments: Sensitivity Analysis (continued)

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Interest rate increase of 0.5%	**(2.1)**	(2.2)	**(2.1)**	(2.2)
Interest rate decrease of 0.5%	**2.1**	2.2	**2.1**	2.2

28. Analysis of Net Debt

			Other non-cash changes		
	January 2017 £m	Cash flow	Foreign exchange	Fair value changes £m	**January 2018 £m**
Cash and short term deposits	49.7				**53.5**
Overdrafts and short term borrowings	(35.3)				**(45.0)**
Cash and cash equivalents	14.4	(4.6)	(1.3)	–	**8.5**
Unsecured bank loans	–	(135.0)	–	–	**(135.0)**
Corporate bonds	(913.5)	–	–	5.0	**(908.5)**
Fair value hedges of corporate bonds	38.6	–	–	(5.1)	**33.5**
Total net debt	(860.5)	(139.6)	(1.3)	(0.1)	**(1,001.5)**

29. Operating Lease Commitments

The Group has entered into operating leases primarily in respect of retail stores and lesser amounts for warehouses, vehicles and equipment. These non-cancellable leases have remaining terms of between one month and approximately 25 years. Contingent rentals are payable on certain retail store leases based on store revenues. The majority of the Group's property leases provide for their renewal by mutual agreement at the expiry of the lease term.

Future minimum rentals payable (to the nearest break-clause) under non-cancellable operating leases where the Group is the lessee:

Leases expiring:	**2018 £m**	2017 £m
Within one year	**243.3**	246.3
In two to five years	**779.6**	825.6
Over five years	**824.8**	963.6
	1,847.7	2,035.5

At January 2018, future rentals receivable under non-cancellable sub-leases where the Group is the lessor were £12.7m (2017: £12.0m).

Notes to the Consolidated Financial Statements

29. Operating Lease Commitments (continued)

Additional information on the Group's leasing commitments as at 27 January 2018 is detailed in the table below:

	Minimum lease payments £m	Less sub-lease income £m	Net total £m
Year to January 2017 (Actual)	243.5	(7.7)	235.8
Year to January 2018 (Actual)	**250.0**	**(9.2)**	**240.8**
Year to January 2019	243.3	(7.4)	235.9
Year to January 2020	239.0	(4.0)	235.0
Year to January 2021	206.3	(0.8)	205.5
Year to January 2022	178.8	(0.2)	178.6
Year to January 2023	155.5	(0.1)	155.4
Subtotal 5 years to January 2023	**1,022.9**	**(12.5)**	**1,010.4**
5 years from February 2023 to January 2028	508.2	(0.2)	508.0
10 years from February 2028 to January 2038	299.3	–	299.3
2038 and beyond	17.3	–	17.3
Total future obligations	**1,847.7**	**(12.7)**	**1,835.0**

Future minimum rentals payable to the end of the lease term are as follows:

	Minimum lease payments £m
Year to January 2017 (Actual)	243.5
Year to January 2018 (Actual)	**250.0**
Year to January 2019	244.0
Year to January 2020	242.7
Year to January 2021	214.3
Year to January 2022	189.8
Year to January 2023	168.1
Subtotal 5 years to January 2023	**1,058.9**
5 years from February 2023 to January 2028	566.8
10 years from February 2028 to January 2038	368.8
2038 and beyond	17.3
Total future obligations	**2,011.8**

30. 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:

	2018 £m	2017 £m
Sales	**7.1**	8.6
Trade receivables	**0.6**	0.4

During the year the Group entered into the following transactions with its joint venture Retail Restaurants Limited, as follows:

	2018 £m	2017 £m
Loan receivable	**1.5**	–
Recharges of costs	**0.6**	–

The loan of £1.5m earns interest at a commercial arms-length rate.

The Group's other related party transactions were the remuneration of key management personnel (refer to Note 4).

PARENT COMPANY FINANCIAL STATEMENTS

Parent Company Balance Sheet

	Notes	27 January 2018 £m	28 January 2017 £m
Fixed assets			
Investments	C2	**2,475.7**	2,475.7
Other financial assets	C3	**48.1**	57.3
		2,523.8	2,533.0
Current assets			
Other debtors	C4	**99.5**	7.9
Cash at bank and in hand		**0.3**	–
		99.8	7.9
Creditors: amounts falling due within one year	C5	**(170.0)**	(48.0)
Net current liabilities		**(70.2)**	(40.1)
Total assets less current liabilities		**2,453.6**	2,492.9
Creditors: amounts falling due after more than one year	C5	**(920.9)**	(923.8)
Total liabilities		**(1,090.9)**	(971.8)
NET ASSETS		**1,532.7**	1,569.1
Capital and reserves			
Called up share capital	C6	**14.5**	14.7
Share premium account		**0.9**	0.9
Capital redemption reserve		**15.4**	15.2
ESOT reserve	C6	**(231.6)**	(215.4)
Other reserves	C6	**985.2**	985.2
Profit and loss account	C7	**748.3**	768.5
TOTAL EQUITY		**1,532.7**	1,569.1

The profit for the year dealt with in the accounts of the Company is £562.0m (2017: £540.7m).

The financial statements were approved by the Board of directors and authorised for issue on 23 March 2018. 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 30 January 2016	**15.1**	**0.9**	**14.8**	**(208.7)**	**985.2**	**641.8**	**1,449.1**
Profit for the year	–	–	–	–	–	540.7	540.7
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	540.7	540.7
Share buybacks and commitments (Note C6)	(0.4)	–	0.4	–	–	(187.6)	(187.6)
ESOT share purchases and commitments (Note C6)	–	–	–	(50.9)	–	–	(50.9)
Shares issued by ESOT	–	–	–	44.2	–	(13.7)	30.5
Share option charge	–	–	–	–	–	13.1	13.1
Equity dividends	–	–	–	–	–	(225.8)	(225.8)
At 28 January 2017	**14.7**	**0.9**	**15.2**	**(215.4)**	**985.2**	**768.5**	**1,569.1**
Profit for the year	–	–	–	–	–	562.0	562.0
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	562.0	562.0
Share buybacks and commitments (Note C6)	(0.2)	–	0.2	–	–	(106.1)	(106.1)
ESOT share purchases and commitments (Note C6)	–	–	–	(37.0)	–	–	(37.0)
Shares issued by ESOT	–	–	–	20.8	–	(10.5)	10.3
Share option charge	–	–	–	–	–	14.1	14.1
Equity dividends	–	–	–	–	–	(479.7)	(479.7)
At 27 January 2018	**14.5**	**0.9**	**15.4**	**(231.6)**	**985.2**	**748.3**	**1,532.7**

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 107 to 112. 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 (2017: £2,475.7m) investment shown in the Balance Sheet of NEXT plc relates to its investment in NEXT Group Limited (2017: NEXT Holdings Limited). A full list of the Group's related undertakings is contained in the table below.

Company name	Registered office address	% held by Group companies
AgraTech Limited	Glen House, 200-208 Tottenham Court Road, London, W1T 7PL	100
Belvoir Insurance Company Limited	Maison Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey	100
Brecon Debt Recovery Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Cairns Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Callscan, Inc.	McSwiney, Semple, Hankin-Birke & Wood PC, PO Box 2450, 280 Main Street, New London, NH 03257, USA	100
Choice Discount Stores Limited	14-14A Rectory Road, Hadleigh Benfleet, Essex, SS7 2ND, UK	49
Lipsy Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
LLC Next	7 Dolgorukovskaya Street, 127006, Moscow, Russian Federation	100
Next (Asia) Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	100
Next (Europe) BV	Herikerbergweg 238, Luna Arena,1101CM Amsterdam, Netherlands	100
Next Sourcing Limited Shanghai Office	9F, Building 1, Highstreet loft, No.508 Jiashan Road, Shanghai	100
Next AV s.r.o.	Pribinova 8, 811 09, Bratislava, Slovakia	100
Next Brand Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Distribution Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Financial Services Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Germany GmbH	Landsberger Stra. 155, 80687 München	100
Next Group Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Hempel Fashions (Shanghai) Co Ltd	Room 201A-201B, Infiniti Plaza, No. 138 HuaiHai Zhong Road, HuangPu District, Shanghai PRC, 200021	100
Next Holdings Limited	Desford Road, Enderby, Leicester, LE19 4AT, UK	100
Next Holding Wholesale Private Limited	Level 2 Raheja, Centre Point, 294 CST Road Near, Mumbai University, Santacruz, East Mumbai, Mumbai City, MH 400098 India	100
Next Manufacturing (Pvt) Limited	Phase 1, Ring Road, 2,E.P.Z, Katunayake, Sri Lanka	100
Next Manufacturing Limited	Desford Road, Enderby, Leicester, LE19 4AT, 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 nábreží 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 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 (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

Notes to the Parent Company Financial Statements

C2. Investments (continued)

Company name	Registered office address	% held by Group companies
NSL Limited	14/F Cityplaza 1, 1111 King's Road, Taikoo Shing, Quarry Bay, Hong Kong	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
UJ Next Kereskedelmi Korlatolt Felelossegu Tarsasag	1132 Budapest, Vaci ut 22-24, Budapest, Hungary	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 12 of the consolidated financial statements, which are carried at their fair value.

C4. Other Debtors

	2018 £m	2017 £m
Amounts due from subsidiary undertaking	**91.1**	–
Prepayments	**8.4**	7.9
	99.5	7.9

C5. Current and Non-current Creditors

	2018		2017	
	Current £m	Non-current £m	Current £m	Non-current £m
Corporate bonds	**–**	**908.5**	–	907.3
Unsecured bank loans	**135.0**	**–**	–	–
Short term borrowings	**15.0**	**–**	–	–
Amounts due to subsidiary undertaking	**–**	**–**	32.1	–
Corporation tax creditor	**1.0**	**–**	–	–
Other financial liabilities	**–**	**12.4**	–	16.5
Accruals and other creditors	**19.0**	**–**	15.9	–
	170.0	**920.9**	48.0	923.8

Further information on the Company's corporate bonds is given in Note 17. Other financial liabilities include interest rate swaps carried at fair value (refer to Note 16).

C6. Share Capital, ESOT and Other Reserves

Details of the Company's share capital and share buybacks are given in Note 20. ESOT transactions are detailed in Note 23. Other reserves in the Company Balance Sheet of £985.2m (2017: £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 £231.6m (2017: £215.4m). At January 2018, therefore, the amount available for distribution by reference to these accounts is £516.7m (2017: £553.1m). 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

Half Year and Segment Analysis (unaudited)

	First half £m	**Second half £m**	**52 weeks to Jan 2018 £m**	First half £m	Second half £m	52 weeks to Jan 2017 £m
Total sales[1]						
NEXT Retail	**993.2**	**1,129.8**	**2,123.0**	1,083.6	1,221.0	2,304.6
NEXT Online	**868.4**	**1,019.0**	**1,887.4**	821.2	907.3	1,728.5
NEXT International Retail	**32.6**	**34.6**	**67.2**	32.1	31.6	63.7
NEXT Sourcing	**3.2**	**3.4**	**6.6**	2.5	2.8	5.3
Lipsy	**12.1**	**12.1**	**24.2**	14.1	13.0	27.1
Property Management	**4.5**	**4.6**	**9.1**	3.6	4.0	7.6
Total	**1,914.0**	**2,203.5**	**4,117.5**	1,957.1	2,179.7	4,136.8
Profit before tax						
NEXT Retail	**89.5**	**179.2**	**268.7**	133.9	204.8	338.7
NEXT Online	**217.1**	**244.1**	**461.2**	204.2	239.9	444.1
NEXT International Retail	**4.1**	**3.6**	**7.7**	4.2	5.1	9.3
NEXT Sourcing	**16.1**	**16.9**	**33.0**	21.8	22.9	44.7
Lipsy	**3.1**	**2.9**	**6.0**	2.8	2.7	5.5
Property Management	**2.9**	**0.7**	**3.6**	3.0	3.8	6.8
Other activities	**(7.6)**	**(12.7)**	**(20.3)**	(9.4)	(12.0)	(21.4)
Operating profit	**325.2**	**434.7**	**759.9**	360.5	467.2	827.7
Net finance costs	**(15.8)**	**(18.0)**	**(33.8)**	(18.4)	(19.1)	(37.5)
Total	**309.4**	**416.7**	**726.1**	342.1	448.1	790.2

The year ended 28 January 2017 balances have not been restated for the change in recharges between the NEXT Retail and NEXT Online segments (refer to Note 1 of the consolidated financial statements for further details).

1. As defined in Note 1 of the consolidated financial statements.

Five Year History (unaudited)

Year to January	**2018 £m**	2017 £m	2016 £m	2015 £m	2014 £m
Underlying[2] continuing business					
Total sales[1]	**4,117.5**	4,136.8	4,213.7	4,027.8	3,758.2
Statutory revenue	**4,055.5**	4,097.3	4,176.9	3,999.8	3,740.0
Operating profit – underlying 52 weeks	**759.9**	827.7	851.8	812.1	722.8
Net finance costs – underlying 52 weeks	**(33.8)**	(37.5)	(30.5)	(29.9)	(27.6)
Profit before tax – underlying 52 weeks	**726.1**	790.2	821.3	782.2	695.2
53rd week (pre-tax)	**–**	–	14.8	–	–
Exceptional items (pre-tax)	**–**	–	–	12.6	–
Taxation	**(134.3)**	(154.9)	(169.3)	(159.9)	(142.0)
Profit after taxation	**591.8**	635.3	666.8	634.9	553.2
Total equity	**482.6**	510.5	311.8	321.9	286.2
Shares purchased for cancellation	**2.2m**	3.6m	2.2m	2.2m	6.2m
Dividends per share – ordinary	**158.0p**	158.0p	158.0p	150.0p	129.0p
– special	**180.0p**	–	240.0p	150.0p	50.0p
Basic Earnings Per Share					
Underlying (52 weeks)	**416.7p**	441.3p	442.5p	419.8p	366.1p
Total	**416.7p**	441.3p	450.5p	428.3p	366.1p

1. As defined in Note 1 of the consolidated financial statements.
2. Underlying is shown pre-exceptional items.

Glossary

Alternative performance measures

The directors use alternative performance measures (APMs) as they believe these measures provide additional useful information on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

Divisional operating profit

Divisional profit before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 *"Share-based payment"* and unrealised foreign exchange gains and losses on derivatives which do not qualify for hedge accounting. Refer to Note 1 of the financial statements.

Earnings Per Share (EPS)

The level of growth in EPS provides a suitable measure of the financial health of the Group and its ability to deliver returns to shareholders. Refer to Note 8 of the financial statements.

Full price sales

Total sales excluding items sold in our mid-season or end-of-season Sale events and our Clearance operations and includes interest income relating to those sales. Full price sales are a direct indicator of the performance and profitability of the business.

Bought-in gross margin

Difference between the cost of stock and initial selling price, expressed as a percentage of achieved total VAT exclusive selling prices. Bought-in gross margin is a measure of the profit made on the sale of stock at full price.

Like-for-like sales

Growth in sales from Retail stores which have been open for at least one full year. This metric enables the performance of the Retail stores to be measured on a consistent year-on-year basis and is a common term used in the retail industry.

Net branch profit/contribution

Retail store total sales less cost of sales, payroll, controllable costs, occupancy costs and depreciation. Expressed as a percentage of VAT inclusive sales. Net branch profit is a measure of the profitability on a store by store level.

Net debt

Comprises cash and cash equivalents, bank loans, corporate bonds, fair value hedges of corporate bonds and finance leases. Refer to Note 28 of the financial statements. Net debt is a measure of the Group's indebtedness.

Net operating margin

Profit after deducting markdowns and all direct and indirect trading costs, expressed as a percentage of achieved total sales. Net margin measures whether profitability is changing at a higher or lower rate relative to revenue.

Total sales

VAT exclusive full price and markdown sales including the full value of commission based sales and interest income (as described and reconciled in Note 1 of the financial statements). Total sales is a direct indicator of performance.

Underlying like-for-like sales

Like-for-like sales, excluding stores impacted by new openings. This is a measure of the annual performance of stores taking into account the impact of new store openings on existing stores.

Underlying profit and Earnings Per Share

Underlying profit and Earnings Per Share measures exclude exceptional items and are shown on a consistent 52 week basis, where relevant. Allows for more consistent comparison, excluding one-off items.

Other definitions

Capital expenditure ("Capex")

The additions to property, plant and equipment.

Exceptional items

Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's underlying performance measures by virtue of their size and nature in order to better reflect management's view of the performance of the Group.

FTE

FTE refers to full time equivalent number of employees.

Internal rate of return (IRR)

Internal rate of return is a discount rate that makes the net present value of all cash flows from a particular project equal to zero.

Like-for-like stores

Retail stores which have traded for at least one full year.

Mainline store

Non-clearance store. Clearance stores sell stock left over from the NEXT end-of-season Sale activity.

Markdown sales

VAT exclusive sales of stock items in our mid-season or end-of-season Sale events and our Clearance operations.

Online active customers

Customers who have placed an Online order or received a standard account statement in the last 20 weeks.

Online cash customers

Online customers who pay at the time of ordering online or via the Call Centre.

Online credit customers

Customers who order using an Online credit account (next**pay** account).

Retail selling space

Selling space is defined as the trading floor area of a store which excludes stockroom and administration areas.

LTIP

Long Term Incentive Plan (refer to page 77).

SMP

Share Matching Plan (refer to page 77).

Total Shareholder Returns (TSR)

TSR has been calculated by reference to the growth in share price combined with the notional investment of gross dividends on ex-dividend dates to create a dividend fraction.

Notice of Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other 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, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

Notice is given that the Annual General Meeting (AGM) of NEXT will be held at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW on Thursday 17 May 2018 at 9.30 am at which the following resolutions will be proposed, resolutions 1 to 14 as Ordinary Resolutions and 15 to 19 as Special Resolutions.

Further information on these resolutions can be found in the Directors' Report on pages 56 to 58 and in the Appendix to this Notice. Biographies of the directors are shown on pages 54 and 55 of the Annual Report.

1 To receive and adopt the accounts and reports of the directors and auditor for the year ended 27 January 2018.

2 To approve the Remuneration Report (excluding the Directors' Remuneration Policy set out on pages 88 to 93) for the year ended 27 January 2018.

3 To declare a final dividend of 105p per share in respect of the year ended 27 January 2018.

4 To re-elect Jonathan Bewes as a director.

5 To re-elect Caroline Goodall as a director.

6 To re-elect Amanda James as a director.

7 To elect Richard Papp as a director.

8 To re-elect Michael Roney as a director.

9 To re-elect Francis Salway as a director.

10 To re-elect Jane Shields as a director.

11 To re-elect Dame Dianne Thompson as a director.

12 To re-elect Lord Wolfson as a director.

13 To re-appoint PricewaterhouseCoopers LLP as auditor of the Company, to hold office until the conclusion of the 2019 AGM of the Company and to authorise the directors to set their remuneration.

14 Directors' authority to allot shares

That:

a. the directors be authorised to allot equity securities (as defined in Section 560 of the Companies Act 2006 (the "2006 Act")) in the Company:

   i. in accordance with article 7 of the Company's Articles of Association (the "Articles"), up to a maximum nominal amount of £4,700,000 (as reduced by any equity securities allotted under paragraph (a)(ii) below); and

   ii. up to a maximum nominal amount of £9,500,000 (as reduced by any equity securities allotted under paragraph (a)(i) above) in connection with an offer by way of a rights issue (as defined in article 8(b)(ii) of the Articles);

b. in accordance with article 7 of the Articles 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 17 August 2019; and

c. all previous unutilised authorities under Section 551 of the 2006 Act shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 551(7) of the 2006 Act by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted on or after that date).

15 General disapplication of pre-emption rights

That, subject to resolution 14 being passed:

a. in accordance with article 8 of the Articles, 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, as defined in article 8(b)(ii) of the Articles) shall be limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £717,000 representing 5% of the issued ordinary share capital;

c. in accordance with article 8 of the Articles 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 17 August 2019; and

d. all previous unutilised authorities under Sections 570 and 573 of the 2006 Act shall cease to have effect (save to the extent that they are exercisable by reason of any offer or agreement made prior to the date of this new resolution which would or might require shares to be allotted on or after that date).

16 Additional disapplication of pre-emption rights

That, subject to resolutions 14 and 15 being passed:

a. in accordance with article 8 of the Articles, 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, as defined in article 8(b)(ii) of the Articles) shall be:

   i. limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £717,000 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. in accordance with article 8 of the Articles 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 17 August 2019; and

d. other than in respect of authorities granted pursuant to resolution 15, all previous unutilised authorities under Sections 570 and 573 of the 2006 Act shall cease to have effect (save to the extent that they are exercisable by reason of any offer or agreement made prior to the date of this new resolution which would or might require shares to be allotted on or after that date).

17 On-market purchase of own shares

That in accordance with the 2006 Act, the Company be granted general and unconditional authority to make market purchases (as defined in Section 693 of the 2006 Act) of any of its own ordinary shares on such terms and in such manner as the directors may determine provided that:

a. the authority conferred by this resolution shall be limited to the lesser of 21,521,000 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 any shares purchased pursuant to the authority granted at resolution 18 below;

b. the minimum price which may be paid for ordinary shares (exclusive of expenses) is 10p per ordinary share;

c. the maximum price which may be paid for each ordinary share (exclusive of expenses) is an amount not more than the higher of: (i) 105% of the average of the middle market price of the ordinary shares of the Company according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share of the Company and the highest current independent bid for an ordinary share of the Company as derived from the London Stock Exchange Trading System;

d. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business 17 August 2019;

e. the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract; and

f. all existing authorities for the Company to make market purchases of its own ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

18 Off-market purchases of own shares

That, in accordance with Section 694 of the 2006 Act, the proposed programme agreements to be entered into between the Company and any of Goldman Sachs International, UBS AG, Deutsche Bank AG, HSBC Bank plc and Barclays Bank plc (in the form produced to this meeting and initialled by the Chairman for the purpose of identification) (the "Programme Agreements") be and are approved and the Company be and is authorised to enter into the Programme Agreements and all and any forward trades which may be effected or made from time to time under or pursuant to the Programme Agreements for the off-market purchase by the Company of its ordinary shares of 10 pence each, as more fully described in the appendix on pages 156 to 157 of this Notice (the authority conferred by this special resolution shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 17 August 2019, (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)), and provided that shares purchased pursuant to this authority will reduce the number of shares that the Company may purchase under the general authority granted under resolution 17 above.

19 Notice of general meetings

That, in accordance with the Articles, 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

16 April 2018

Notice of Meeting

Appendix

Further information on resolution 18: Off-market purchases of own shares

As noted in the Directors' Report on page 58, approval will be sought from shareholders to renew the Company's authority to make off-market purchases of its shares.

By virtue of special resolution 20 passed at the Company's 2017 AGM, shareholder authority was given to the Company to make on-market purchases of shares. This authority was limited to a maximum of 22,043,000 shares and expires on the earlier of the date of the AGM held in 2018 or 18 August 2018. 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 AGM to be held in 2018 or 18 August 2018. Pursuant to those authorities and up to 22 March 2018, the Company has bought back 3,577,585 shares for cancellation, representing 2.4% of its issued share capital as at the date of the 2017 AGM, at a total cost of £175.2m. No shares were bought back under contingent purchase contracts.

Under Sections 693 and 694 of the 2006 Act, the Company is not permitted to make off-market purchases or contingent purchases of its shares unless it obtains advance shareholder approval to the proposed contract terms. Furthermore, the Market Abuse Regulations (MAR) limit the Company's ability to purchase its shares at a time when any director is in receipt of unpublished price sensitive information about the Company. Accordingly, no purchases of shares would normally be made in periods when the directors might be in receipt of unpublished price sensitive information ("Closed Periods"). The Company typically follows the definition of Closed Period in Article 19(11) of MAR which includes 30 days before the announcement of its interim results in September and full year results in March each year. 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 able to enter into irrevocable and non-discretionary programmes to allow it to buy shares during Closed Periods. Another method of providing flexibility and reducing the cost, is for the Company to enter into contingent forward purchase contracts outside of 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 (although it 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") shall also be fixed at the start of the CFT. The Forward Price will be 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 amount of time 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 UK Listing 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 would terminate automatically at that time and no further shares would be purchased under that contract.

Under the provisions of Sections 693 and 694 of the 2006 Act, the Programme Agreements and Contingent Forward Trades are contingent purchase contracts to purchase shares by the Company off-market. Accordingly resolution 18, which will be proposed as a special resolution, seeks shareholder approval to the terms of the Programme Agreements to be entered into between the Company and each of the Banks. The Programme Agreements will have a duration of the shorter of the period to the date of the next AGM to be held in 2019 and 17 August 2019 and will incorporate the terms of an ISDA Master Agreement and Schedule. The Programme Agreements will be entered into and each CFT will be affected outside a Closed Period but shares may be purchased during a Closed Period by the Company.

Should shareholder approval be granted, any number of CFT may be affected 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% of its issued share capital at 22 March 2018;
- 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 per cent 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 17 May 2018 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 AGM of the Company held in 2019 or on 17 August 2019, 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).

A copy of each of the Programme Agreements will be available at the AGM on 17 May 2018. 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 and at the AGM itself.

The Company has no warrants in issue in relation to its shares and no options to subscribe for its shares outstanding. Exercise of all outstanding employee share options and share awards will be satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 23 of the financial statements).

Meeting formalities and voting

Attending the Annual General Meeting

To be entitled to attend and vote at the AGM (and in accordance with the Articles and pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001) and for the purposes of determining the number of votes shareholders may cast, shareholders must be registered in the register of members of the Company as at 6.30 pm on 15 May 2018 or, if the meeting is adjourned, shareholders must be entered on the Company's register of members at 6.30 pm on the day two days before the adjourned meeting.

The total number of the Company's issued share capital on 22 March 2018, which is the latest practicable date before the publication of this Notice, is 143,478,977 ordinary shares. All of the ordinary shares carry one vote each and there are no shares held in treasury. On a vote by a show of hands every member who is present has one vote and every proxy present who has been duly appointed by a member entitled to vote has one vote. On a poll vote every member who is present in person or by proxy has one vote for every ordinary share they hold.

In line with best practice, all resolutions will be put to poll votes. The directors believe a poll is more representative of shareholders' voting intentions because shareholders' votes are counted according to the number of shares held and all votes tendered are taken into account. The procedures for the poll votes will be explained at the AGM.

In respect of resolution 18 on off-market share purchase contracts, the 2006 Act provides that this resolution will not be effective if any member of the Company holding shares to which it relates (i.e. those which may be purchased pursuant to the Programme Agreements) exercised the voting rights carried by any of those shares in voting on the resolution and the resolution would not have been passed if they had not done so. Therefore, NEXT intends to disregard any poll votes which are cast in favour of resolution 18 attaching to 3 million shares (being the total maximum number of shares which the Company is permitted to purchase pursuant to the Programme Agreements) from both the total number of votes cast in favour of this resolution and the total number of votes cast.

The results of the AGM will be posted on our corporate website (www.nextplc.co.uk) after the meeting and notified to the UK Listing Authority.

Notice of Meeting

Voting and proxies

Whether or not you intend to attend the AGM in person, you are requested to complete and return the form of proxy to Equiniti, to arrive as soon as possible but in any event not later than **9.30 am on 15 May 2018** (or 48 hours before any adjourned meeting). The completion and return of the form of proxy will not prevent you from attending and voting at the AGM if you so wish.

A shareholder who is entitled to attend and vote at the AGM may appoint one or more proxies to attend, speak and vote instead of him/her, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not also be a shareholder of the Company and may vote on any other business which may properly come before the meeting.

The statements of the rights of members in relation to the appointment of proxies in the above paragraph and in the paragraphs headed "Electronic voting" and "CREST voting facility" below do not apply to a Nominated Person. The rights described in these paragraphs can only be exercised by registered members of the Company. Nominated persons are reminded that they 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 will be accepted, the senior holder being the first named of the joint holders to appear in the Company's share register.

A member who appoints as their proxy someone other than the Chairman, is responsible for ensuring that the proxy attends the meeting and is aware of the voting intention of the member. If no voting instruction is given, the proxy has discretion on whether and how to vote.

A person to whom this Notice is sent who is a person nominated under Section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Electronic voting

As an alternative to completing and returning a form of proxy, you may submit your proxy electronically by accessing our registrar's website www.sharevote.co.uk. You will require your unique Voting ID, Task ID and Shareholder Reference Number as printed on the proxy card. The use by members of the electronic proxy appointment service will be governed by the terms and conditions of use which appear on the website. Electronic proxies must be completed and lodged in accordance with the instructions on the website by no later than **9.30 am on 15 May 2018.**

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 17 May 2018 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 www.euroclear.com.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Right to ask questions

Any shareholder attending the meeting has the right to ask questions. The Company must answer any such question relating to the business being dealt with at the AGM but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (ii) the answer has already been given on a website in the form of an answer to a question, or (iii) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

Documents available for inspection

Copies of the following documents will be available for inspection at the Company's registered office during usual business hours and will be available for 15 minutes prior to and for the duration of the AGM.

- Terms of appointment of the non-executive directors
- The Programme Agreements pursuant to resolution 18

Copies will also be available for inspection at the offices of Slaughter and May at One Bunhill Row, London, EC1Y 8YY during usual business hours until the close of the AGM.

Company website

A full copy of the Annual Report (which includes this Notice), together with those for prior years, and other information required by Section 311A of the 2006 Act can be found on the NEXT plc website at **www.nextplc.co.uk.**

Under Section 527 of the 2006 Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the members requesting such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act, and it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the 2006 Act to publish on its website.

You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.

Other Shareholder Information

Registered office

Desford Road, Enderby, Leicester, LE19 4AT

Registered in England and Wales, no. 4412362

Payment of dividend

The recommended final dividend, if approved, will be paid on 1 August 2018 to holders of ordinary shares registered at close of business on 6 July 2018. The ordinary shares will trade ex-dividend from 5 July 2018.

Annual General Meeting

The AGM will be held at 9.30 am on Thursday 17 May 2018 at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW. The Notice of the Meeting on pages 154 to 159 sets out business to be transacted. Full access is available to the venue for those with special requirements.

Share price data

(Stock Exchange Code: NXT.L)

	2018	2017
Share price at financial year end	**£52.18**	£38.50
Market capitalisation	**£7,560m**	£5,662m
Share price movement during year:		
High mid-market quotation	**£53.20**	£70.20
Low mid-market quotation	**£36.17**	£38.26

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 email alyson_wenlock@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 **www.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 **www.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 on **www.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 42 to 46; 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.

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