NEXT Retail Limited

Reports and Financial Statements

25 January 2020

Registered No: 04521150

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Registered in England & Wales

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Strategic Report

The directors present their reports and audited financial statements for the 52 week period ended 25 January 2020.

Results

The profit for the 52 week period ended 25 January 2020 after taxation, amounted to £436.5m (Restated period ended 26 January 2019: £424.2m).

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

Business strategies and objectives

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

- Use our product skills, distribution networks, systems, services and sourcing to create goods and provide services that consumers cannot easily find elsewhere
- Focus on customers' satisfaction levels by improving the customer experience in our stores and continuing to develop and enhance our Online website
- Improve and develop our product ranges by using our design skills to create quality products at affordable prices
- Increase the number of profitable Online customers and their spend, both in the UK and internationally. Our UK Online business is complemented by LABELs' offering of branded products and the credit facility (next**pay**). Our objective is to be our customers' first choice online retailer for clothing, footwear and home products
- Achieve healthy gross and net margins through efficient product sourcing, stock management and cost control
- Healthy margins help create stability that allows the business to withstand the vagaries of any consumer-facing business

Strategic Report

REVIEW OF THE YEAR AND KEY PERFORMANCE INDICATORS

TOTAL SALES excluding VAT* (52 v 52 weeks)	25 January 2020 £m	26 January 2019 £m	Annual Change
NEXT Online	2,146.6	1,918.8	+11.9%
NEXT Retail	1,851.9	1,955.1	-5.3%
NEXT Finance	268.7	250.3	+7.4%
Total NEXT Brand sales excluding VAT	4,267.2	4,124.2	+3.5%
NEXT International	53.0	54.4	-2.6%
Total NEXT Retail Limited sales excl VAT	4,320.2	4,178.6	+3.4%
Statutory turnover (52 v 52 weeks)	4,140.3	4,043.1	+2.4%

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

NEXT ONLINE

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

Profit by Division

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

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

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

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

ONLINE OVERSEAS

Overseas sales and profit

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

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NEXT RETAIL

Retail Sales and Profit

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

Full price Retail sales were down -4.3%, which was +0.8% ahead of our initial budget for the year. Total sales, including markdown sales, down by -5.3%. Profit was down -23% on last year and net margin reduced by -2.0% to 8.9%, mainly due to the costs of store occupancy and other fixed overheads which did not fall in line with like-for-like sales.

Retail like for like sales

	2020	*2019*
Total like-for-like sales	-5.7%	-8.5%
Full price like-for-like sales	-5.5%	-8.2%

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

NEXT FINANCE

NEXT Finance has performed well in the year. Interest income was up +7.3% on last year and net profit was up +15.3%. NEXT Finance ended the year with £1.2bn of outstanding consumer debt and contributed £147m of profit to the Company.

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

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

Note in the table above, cost of funding for January 19 has been restated to reflect the new debt to equity ratio. This is detailed in page 32 of the Group's Annual Report and Accounts for the year ended 25 January 2020. We have also restated Net profit and ROCE (after cost of funding) for January 19 to reflect this.

Strategic Report

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

Position at 25 January 2020
At 25 January 2020 net assets of the Company are £3,266,823,000 compared to £2,844,333,000 at the previous year end, the increase reflecting retained profits from sales in the current year.

INTERNATIONAL RETAIL AND FRANCHISE STORES

Our franchise partners currently operate 185 stores in 31 countries. During the year we closed our unprofitable retail operations in Sweden.

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

The Company is a wholly owned subsidiary of Next Holdings Limited. The principal activity of the Company is the retailing of ladies' and men's young fashion brands. Therefore the Company considers that, indirectly, its key stakeholders reflect those of Next plc. However the Company has no external debt funding and it therefore considers its relationships with its workforce, customers and suppliers to be of direct relevance and long term importance to its long term success.

Relationship and engagement with stakeholders

Workforce
The strength of our business is built on the hard work and dedication of all of the Company's people. We also consider the interests of former employees who are members of a group pension scheme. Our colleagues rely on us to provide stable employment and opportunities to realise their potential in a working environment where they can be at their best.

The Next Plc Board takes active steps to ensure that the suggestions, views and interests of the workforce are captured and considered in our decision-making. The Company benefits from having a Chief Executive and other executive directors who have served with the Company as employees and, latterly, as directors over a period of 20 to 30 years. They all therefore perform a high degree of personal oversight and engagement in the Company's affairs. This knowledge of the business and active style of engagement means our executive directors maintain an exceptionally acute insight into the mood, culture and views of the workforce, which they are then able to report on to the wider Next Plc Board.

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Employee engagement

There are a number of effective workforce engagement mechanisms in place across the Company:

- Employees are kept informed of performance and strategy through regular presentations and updates from members of the Next Plc Board.
- The executive directors attend key business meetings throughout the year, including weekly trading and capex meetings, monthly international sales meetings, and presenting financial results to Head Office employees.
- Employee engagement surveys are undertaken covering the vast majority of the workforce, and the results are reported to the Next Plc Board.
- The Chairman and other non-executive directors of the Next Plc Board attend meetings with employees, including:
  - Product Training Days and visits to stores and warehouses as a Board as well as individual director visits; and
  - the attendance by a Next Plc Board non-executive director, alongside the Group Chief Executive and the Group HR Director, at meetings of the Group's Workforce Focus Forums with workforce representatives (these are workforce advisory panels as referred to in the Corporate Governance Code). This allows effective engagement and open discussion on the key business issues, policies and the working environment in different parts of the business, with actions agreed on issues raised.
- During the year a new online tool was put in place to facilitate ongoing, meaningful performance and development conversations between managers and teams. The tool also provides a forum for positive and constructive feedback by individuals, peers and managers. The Group HR Director attends certain meetings of the Next Plc Board to brief on employee-related matters, including workforce demographics, engagement activities, the results of employee opinion surveys, staff retention rates, diversity, numbers and nature of whistleblowing, disciplinary and grievance procedures, learning and development activity, pay and reward including gender pay gap and HR initiatives.

The Next Plc Board considers that, taken together, these arrangements deliver an effective means of ensuring the Next Plc Board stays alert to the views of the workforce. With regard to health, safety and wellbeing, during the year the Audit Committee received an update from the Group Health and Safety Manager including on safety performance, safety risk management and mental health wellbeing initiatives.

Diversity

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

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

Customers

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

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As a large retail business, the sentiment of customers can be seen in the Company's underlying sales performance figures, which the Next Plc Board reviews regularly. The Executive directors provide updates to the Next Plc Board on their perceptions of consumer sentiment and the market view. The interests of customers are considered in key decisions e.g. relating to: store portfolio changes; selection of product lines including third-party brands; selection and monitoring of suppliers to ensure quality and safety standards are met; freight and logistics arrangements to maximise efficiencies from order to delivery; the availability of customer credit products; and the development of the Online Platform. With the interests of customers in mind, during the year the Next Plc Board reviewed proposals in respect of: store closures and new openings; capital expenditure on stores and warehouses; a new credit product from NEXT Finance and major freight forwarding and parcel delivery contracts.

Suppliers

We rely on our suppliers to provide the real estate through which we store and display our lines and provide essential services we need to operate our business. Our suppliers rely on us to generate revenue and employment for them.

Throughout the year the Next Plc Board was briefed on major contract renegotiations and strategy with regard to key suppliers. The Next Plc Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our investors and the desired quality and service levels for our customers.

Risks and uncertainties

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

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Business strategy development and implementation If the Board adopts the wrong business strategy or does not implement its strategies effectively, our business may suffer. The Board therefore needs to understand and properly manage strategic risk, taking into account specific retail sector risk factors, in order to deliver long term growth for the benefit of the Company's stakeholders.	The Board reviews business strategy on a regular basis to determine how sales and profit can be maximised, and business operations made more efficient. The Chief Executive provides regular updates at Board meetings regarding key opportunities and progress of major initiatives. Our International Online business and our third-party label business provide geographic and product diversity. Our disciplined approach to sales, budgeting, investment returns and cost control ensures the Company continues to generate strong profits and cash flows. The Board and senior management consider strategic risk factors, wider economic and industry specific trends that affect the Group's businesses, the competitive position of its product and the financial structure of the Group. A detailed plan to manage the business going forward and its longer term direction of travel exists and is clearly articulated to our stakeholders in our annual and half yearly reports. Longer term financial scenarios for our Retail business have been prepared and stress tested. This process provides a mechanism for ensuring that business profitability is maximised through efficient allocation of resources and management of costs.

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Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Product design and selection Our success depends on designing and selecting products that customers want to buy, at appropriate price points and stocked in the right quantities. In the short term, a failure to manage this risk may result in surplus stocks that cannot be sold and may have to be disposed of at a loss. Over the longer term a failure to meet the design, quality and value expectations of our customers will adversely affect the reputation of the NEXT Brand.	Executive directors and senior management continually review the design, selection and performance of NEXT product ranges and those of other brands sold by NEXT. To some extent, product risk is mitigated by the diversity of our ranges and our third-party label product ranges. Executive directors and senior management regularly review product range trends to assess and correct any key selection or product issues. Corrections to significant missed trends or poorer performing ranges are targeted for amendment, with alternative products being sourced within six months where necessary. Senior product management approves quality standards, with in-house quality control and testing teams in place across all product areas. Senior management regularly reviews product recalls and product safety related issues.
Key suppliers and supply chain management Reliance on our supplier base to deliver products on time and to quality standards is essential. Failure to do so may result in an inability to service customer demand or adversely affect NEXT's reputation. Changes in global manufacturing capacity and costs may impact on profit margins. Non-compliance by suppliers with the NEXT Code of Practice may increase reputational risk or undermine our reputation as a responsible retailer.	Stock availability is reviewed on an ongoing basis and appropriate action taken where service or delivery to customers may be negatively impacted. Management continually seeks ways to develop our supplier base to reduce over-reliance on individual suppliers and to maintain the quality and competitiveness of our offer. The Group's supplier risk assessment procedures establish contingency plans in the event of key supplier failure. Existing and new sources of product supply are developed in conjunction with NEXT Sourcing, external agents and/or direct suppliers. Our in-house global Code of Practice team carry out regular audits of our product-related suppliers' operations to ensure compliance with the standards set out in our Code. These standards cover supplier production methods, employee working conditions, quality control and inspection processes. We train relevant employees and communicate with suppliers regarding our expectations in relation to responsible sourcing, anti-bribery, human rights and modern slavery. The Audit Committee receives Code of Practice and modern slavery updates from senior management during the year. The Audit Committee receives modern slavery and anti-bribery training progress updates together with whistleblowing reports at each meeting. Significant matters are reported to the Board.

Strategic Report

Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Warehousing and distribution Our warehousing and distribution operations provide fundamental support to the running of the business. Risks include business interruption due to physical damage, access restrictions, breakdowns, capacity and resourcing shortages, IT systems failure, inefficient and slow processes and third-party failures. Increasing choice in the products NEXT sells has been central to the development of our Online Platform but the proliferation of unique items has presented our warehouse operation with significant challenges.	Planning processes are in place to ensure there is sufficient warehouse handling capacity for expected future business volumes over the short and longer terms. Service levels, warehouse handling, inbound logistics and delivery costs are continually monitored to ensure goods are delivered to our warehouses, Retail stores and Online customers in a timely and cost efficient manner. Our Warehouse Leadership Team meets regularly to assess the opportunities and risks in our warehouse and logistics network. Business continuity plans and insurance are in place to mitigate the impact of business interruption. The Board has approved and keeps under regular review a warehouse investment proposal to accommodate further Online growth and transfer in customer demand from Retail to Online.
Customer-facing systems NEXT's performance depends on the engagement, recruitment and retention of customers, and on its ability to drive and service customer demand. There is a risk that the business fails to adopt and/or make effective and efficient use of new software, hardware and mechanisation to provide both Retail and Online customers with service levels that meet or exceed their expectations. These systems, software and platforms are ever changing, as technology continues to evolve. Keeping customers and users up to date and managing the implementation and changes that come with the evolution of these platforms can be challenging.	Continued investment in technology which supports the various component parts of the NEXT Online Platform. Continual development and monitoring of performance of NEXT's UK and overseas websites, with a particular focus on improving the online customer experience. A range of key trade and operational meetings keep under review the performance, evolution, risks and opportunities of the NEXT customer facing systems. Executive directors are in attendance at each of these key meetings. Market research and customer feedback is used to assess customer opinions and satisfaction levels to help to ensure that we remain focused on delivering excellent customer service. Ongoing monitoring of KPIs and feedback from website and call centre support operations.

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Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Information security, business continuity and cyber risk The continued availability and integrity of our IT systems is critical to successful trading. Our systems must record and process substantial volumes of data and conduct inventory management accurately and quickly. Continuous enhancement and investment is required to prevent obsolescence and maintain responsiveness. The threat of unauthorised or malicious attack is an ongoing risk, the nature of which is constantly evolving and becoming increasingly sophisticated. Our brand reputation could be negatively impacted by cyber security breaches. The Group could inadvertently process customer or employee data in a manner deemed unethical or unlawful, resulting in significant financial penalties, remediation costs, reputational damage and/or restrictions on our ability to operate. This is against a backdrop of: • The changing attitude of UK consumers toward their data and how it is used • Increasingly complex and fast-evolving data protection law and regulation • Rapid technological advances delivering an enhanced ability to gather, draw insight from and monetise personal data	We operate an Information Security and Data Protection Steering Committee. Its main activities include agreement and monitoring of related key risks, activities and incidents. The Committee comprises two executive directors and relevant senior management. Significant investment in systems' development and security programmes has continued during the year, complemented by in-house dedicated information security resources. Systems vulnerability and penetration testing is carried out regularly by both internal and external resources to ensure that data is protected from corruption or unauthorised access or use. Critical systems backup facilities and business continuity plans are reviewed and updated regularly. Major incident simulations and business continuity tests are carried out periodically. IT risks are managed through the application of internal policies and change management procedures, contractual service level agreements with third-party suppliers, and IT capacity management. All staff and contractors are required to read, accept and comply with the Group's data protection and information security policies, which are kept under regular review and supported by training. Information security and data protection risk exposure was reviewed during the year by both the Audit Committee and the Board, target risk appetites were agreed and the controls necessary to achieve target were documented. A roadmap was prepared and approved to address gaps between current and target risk exposures.
Management of long term liabilities and capital expenditure Poor management of NEXT's longer term liabilities and capital expenditure could jeopardise the long term sustainability of the business. It is important to ensure that the business continues to be responsive and flexible to meet the challenges of a rapidly changing Retail sector.	Our predominantly leased store portfolio is actively managed by senior management, with openings, refits and closures based on strict store profitability and cash payback criteria. We undertake regular reviews of lease expiry and break-clauses to identify opportunities for exit or renegotiation of commitments. Leases will not be automatically renewed if acceptable terms are not agreed. The Board regularly reviews our lease commitments, new store openings and potential store closures. We ensure that we make healthy returns on capital employed, commensurate with the risks involved in our sector (in practical terms this means a return of no less than 15% on capital invested). Appropriate amortisation accounting policies reduce the risk of unexpected significant write-off.

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Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Financial, treasury, liquidity and credit risks NEXT's ability to meet its financial obligations and to support the operations of the business is dependent on having sufficient funding over the short, medium and long term. NEXT is reliant on the availability of adequate financing from banks and capital markets to meet its liquidity needs. NEXT is exposed to foreign exchange risk and profits may be adversely affected by unforeseen moves in foreign exchange rates. NEXT might suffer financial loss if a counterparty with which it has transacted fails and is unable to fulfil its contract. NEXT is also exposed to credit risk, particularly in respect of our Online customer receivables, which at £1.4bn represents the largest item on the Balance Sheet.	NEXT operate a centralised treasury function which is responsible for managing liquidity, interest and foreign currency risks. It operates under a Board approved Treasury policy. Approved counterparty and other limits are in place to mitigate NEXT's exposure to counterparty failure. The Group's debt position, available funding and cash flow projections are regularly monitored and reported to the Board. The Board will agree funding for the Group in advance of its requirement to mitigate exposure to illiquid market conditions. NEXT has a Treasury Committee which includes the Group Finance Director. The Treasury Committee usually meets weekly to review the Group's treasury and liquidity risks including foreign exchange exposures. Rigorous procedures are in place with regards to our credit account customers, including the use of external credit reference agencies and applying set risk criteria before acceptance. These procedures are regularly reviewed and updated. Continual monitoring of our credit customers' payment behaviours and credit take up levels is in place.
Regulatory compliance in relation to our consumer credit business Failure to continuously adapt to the increasingly broad, stringent and fast-evolving regulatory framework applicable to the operation of the Group's customer credit business could result in significant financial penalties and remediation costs, reputational damage and/or restrictions on our ability to operate.	Policies and training are in place for those employees and contractors working in the business areas that are subject to financial regulation. These are kept under review and updated. A dedicated financial regulatory compliance and quality assurance team monitors compliance and any changing requirements, working with external advisers as required. NEXT has identified a set of Conduct and Compliance risks, documented in an operational risk register, with owners and associated controls. Key risk and control performance indicators are managed through a series of operational meetings and reported quarterly to the Retail Credit Board.

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Description of risk or uncertainty	How the risk or uncertainty is managed or mitigated
Covid 19 Since 25 January 2020, the spread of Covid-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. The performance of NEXT Retail Limited is based on the NEXT group's ability to trade safely and in line with government guidance.	On Thursday 26 March 2020, the Group temporarily closed its UK warehouses and distribution networks in order to adapt its operations to working safely in a coronavirus world. During the 18 days of closure the group re-organised all aspects of its warehousing to ensure social distancing and improved sanitation. We re-organised the flow of pedestrians, adapted exits, entrances, congregation areas, rest areas and workstations. In addition, we changed our picking routines and delivery promise to smooth workflow during the day and eliminated the peaks in activity most likely to result in close contact between operatives. We re-opened our warehouse picking operation on Tuesday 14 April 2020, the ramp-up of operations was necessarily slow; staff inductions need to be conducted in small numbers to ensure that colleagues are completely familiar with new ways of working. This approach has, to date, been successful. The retail operations of the Group commenced in June 2020, the launch again built around ensuring the safety of staff and customers. The reopening of stores was staggered to ensure that the business was able to monitor performance and ensure safety measures are effective. While a second lockdown commenced on 5 November 2020, and a third at the start of 2021, the actions taken to revamp operations in the warehouse have enabled the Company to continue to sell to customers through its Online and click and collect operations. In addition to re-establishing the online and retail operations the group engaged with its banks and received agreement to waive the covenant compliance tests until January 2021 and was successful in its application to draw on the Bank of England's Covid Corporate Financing Facility (CCFF). Funding was approved on 3 April 2020. While the Group has not utilised this facility, and does not currently expect to draw upon it, it has nevertheless helped provide additional financial headroom during the current economic climate.

Brexit

In June 2016, the United Kingdom voted to leave the European Union, leading to uncertainty in the financial markets and the wider economy. The full impact remains unclear until the outcome of political and trade negotiations is finalised. The Company's risks from this have been assessed alongside their potential impact and we will continue to closely monitor the on-going situation.

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Corporate responsibility

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

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

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

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

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

The Group's employee share ownership trust (ESOT) purchases shares for issue to employees when their options are exercised or awards vest.

Equal opportunities and diversity
NEXT Retail Limited is an equal opportunities employer and will continue to ensure that it offers career opportunities without discrimination. Employment positions throughout the Company are filled with the candidates who possess the most appropriate skills and competencies relevant for the particular job role. The Company policy is to treat all employees fairly and equally regardless of gender, sexual orientation, marital status, race, colour, nationality, religion, ethnic or national origin, age, disability or union membership status.

Full consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities and in accordance with relevant legislation. The Company continues the employment wherever possible of any person who becomes disabled during their employment, providing assistance and modifications where possible. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

Pension provision
The Company's employees are eligible to participate in the NEXT Group Pension Plan which provides a valuable pension benefit to its participating employees, details of which are set out in Note 19 to the financial statements.

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

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

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

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

Ethical trading
The challenge of trading ethically and acting responsibly towards the workers in our own and our suppliers' factories is a key priority which is managed by the NEXT Code of Practice (COP) Team, made up of almost 50 of our employees based in key sourcing locations. The Company continues to focus on its supply chain as it recognises that there is potential for human rights issues to arise in this area.

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

The COP team carried out over 2,400 audits of factories in 2019/20 and work directly with suppliers to identify and address causes of non-compliance. The Company also recognises the importance of partnership and collaboration with our suppliers, other brands and organisations when working to resolve some of the more complex problems.

Traceability and transparency of our suppliers' factories are an important part of the Company's overall approach to corporate responsibility. Suppliers are contractually required to declare to the Company all Tier 1 and 2 sites where NEXT branded products or components will be manufactured. This means we can ensure the facility is audited and meets our requirements.

Customers
NEXT Retail Limited is committed to offering exciting, beautifully designed, excellent quality products that are well made, functional, safe and responsibly sourced and which provide outstanding value to meet or exceed our customers' expectations. The Company believes it is important that the raw materials used in our products are sourced in a way which respects people, animals and the environment within our supply chain.

NEXT Retail Limited endeavours to provide a high quality service to its customers, whether they are shopping through our stores or online. Our NEXT Customer Services teams respond to a wide range of

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customer enquiries and issues. Customer feedback is gathered from a variety of different sources and findings are reviewed and the information is used by relevant business areas to ascertain how products or services can be improved.

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

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

Responsible sourcing
Each stage of our supply chain has an environmental and social impact, from sourcing the materials through to post consumer use and disposal. The majority of environmental impacts lie in the fibre and fabric production stage. Whilst we do not source raw materials directly, we work with our suppliers to ensure we can trace their routes. This enables us to source products in ways which support their replenishment, respect human rights and protect natural habitats. The main raw materials used in our products are cotton, wool, manmade cellulosic (such as viscose), polyester, timber and leather. These materials can have wide-ranging environmental and social risks associated with their production and extraction if not managed correctly.

Our 2025 Responsible Sourcing Strategy sets out our ambition to source 100% of our main raw materials through known, responsible or certified routes and work with our suppliers to help reduce the impact of manufacturing processes on the environment and on the health of those working and living in communities around the sites where our products are made.

Environmental matters

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

Key areas of focus are:

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

Community

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

Strategic Report

Human rights and modern slavery

Respect for human rights is a fundamental part of how NEXT Retail Limited operates as a responsible business. As a business we seek to avoid infringing the human rights of others and work to address any adverse human rights impacts we identify. We are committed to ensuring that people are treated with dignity and respect by upholding internationally recognised human rights principles encompassed in the Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. Any instance of forced labour is unacceptable.

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

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

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

By order of the Board

Seonna Anderson
Secretary
25 January 2021

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), financial risk management, future developments and environmental matters are given in the Strategic Report.

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

Dividends

Equity dividends were paid during the financial period of £nil (period ended 26 January 2019: £600m). The directors do not propose payment of a final dividend.

Directors

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

Lord Wolfson of Aspley Guise
Amanda James

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

Going concern

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

The Company participates in the NEXT Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary companies. Accordingly, the assessment of going concern considered both the financial position and forecasts of the NEXT Group. The directors, report that, having reviewed current performance and forecasts, they have reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. As part of this review, a letter of support for the Company for at least 12 months from the date of signing has been signed by the directors of NEXT Plc. For this reason, the directors have continued to adopt the going concern basis in preparing the financial statements.

Outlook

The challenges faced by the Group, and in turn the Company, are complex particularly given the impact of Covid 19. The Company will continue to focus on managing its overall financial position, cash flows and liquidity whilst trading online and through its stores.

Post balance sheet events

The impact of the Covid 19 pandemic that has severely impacted on the global economy is discussed in the Strategic Report.

Directors' Report

Independent Auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution proposing their reappointment was proposed and passed at the 2020 NEXT plc AGM.

Disclosure of information to the auditors
In accordance with the provisions of section 418 of the Companies Act 2006, each of the persons who is a director at the date of approval of this report confirms that:

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

By order of the Board

Seonna Anderson

Seonna Anderson
Secretary
25January 2021

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

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

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

Seonna Anderson

Seonna Anderson
Secretary
29 January 2021

Independent Auditors' Report to the Members of NEXT Retail Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 25 January 2020 and of its profit for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Reports and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 25 January 2020; the profit and loss account, the statement of comprehensive income and the statement of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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.

Independent Auditors' Report to the Members of NEXT Retail Limited

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 25 January 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Independent Auditors' Report to the Members of NEXT Retail Limited

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Lyon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
25 January 2021

Profit and Loss Account

for the 52 week period ended 25 January 2020

	Note	*52 weeks to 25 January 2020 £000*	*52 weeks to 26 January 2019 Restated £000*
Turnover	2	4,140,280	4,043,136
Cost of sales		(2,662,409)	(2,655,021)
Gross profit		1,477,871	1,388,115
Distribution costs		(614,492)	(543,325)
Administrative expenses		(199,063)	(188,076)
Operating profit	3	664,316	656,714
Amounts written off investments		-	(7,672)
Interest receivable and similar income	6	2	15
Interest payable and similar expenses	7	(122,508)	(117,670)
Profit before taxation		541,810	531,387
Tax on profit	8	(105,330)	(107,162)
Profit for the financial period		436,480	424,225

Statement of Comprehensive Income

for the period ended 25 January 2020

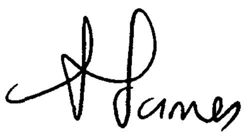
	Note	*52 weeks to 25 January 2020 £000*	*52 weeks to 26 January 2019 Restated £000*
Profit for the financial period		436,480	424,225
Other comprehensive income and expenses			
Items that may be reclassified to profit or loss			
(Losses)/Gains on cash flow hedges		(6,566)	67,583
Transferred to Profit and Loss Account on cash flow hedges		(28,883)	24,311
Transferred to the carrying amount of hedged items on cash flow hedges		4,117	(12,639)
Tax relating to components of other comprehensive income/(expense)	8	5,326	(13,473)
Other comprehensive (expense)/income for the period		(26,006)	65,782
Total comprehensive income for the period		410,474	490,007

Registered in England, no. 04521150

Balance Sheet
at 25 January 2020

	Note	*25 January 2020 £000*	*26 January 2019 Restated £000*
Fixed assets			
Intangible assets	10	2,496,368	2,496,368
Tangible assets	11	281,021	330,864
Right of use asset	12	4,151	4,609
		2,781,540	2,831,841
Current assets			
Stock	13	527,093	499,643
Customer and other receivables			
Due after more than one year	14	42,180	20,884
Due within one year	15	1,770,486	1,379,799
Right of return asset		22,610	23,400
Cash at bank and in hand	16	68,213	111,251
		2,430,582	2,034,977
Creditors: amounts falling due within one year	17	(1,945,006)	(2,021,693)
Net current assets		485,576	13,014
Total assets less current liabilities		3,267,116	2,844,855
Creditors: amounts falling due after one year	18	(293)	(522)
Net assets		3,266,823	2,844,333
Capital and reserves			
Share capital	21	1	1
Fair value reserve		(25,647)	359
Profit and loss account		3,292,469	2,843,973
Total equity		3,266,823	2,844,333

The financial statements on pages 22 to 55 were approved by the Board of Directors on 25 January 2021 and signed on its behalf by



Amanda James
Director

Statement of Changes in Equity
for the 52 week period ended 25 January 2020

	Share capital £000	Fair value reserve £000	Profit and loss account Restated £000	Total Restated £000
At 28 January 2018	1	(59,159)	3,014,344	2,955,186
Profit for the financial period	-	-	424,225	424,225
Other comprehensive income for the period	-	65,782	-	65,782
Total comprehensive income for the period	-	65,782	424,225	490,007
Equity dividends paid	-	-	(600,000)	(600,000)
Transfer between reserves	-	(6,264)	6,264	-
Tax recognised directly in equity	-	-	(860)	(860)
At 26 January 2019	1	359	2,843,973	2,844,333
Profit for the financial period	-	-	436,480	436,480
Other comprehensive expense for the period	-	(26,006)	-	(26,006)
Total comprehensive (expense)/income for the period	-	(26,006)	436,480	410,474
Transfer between reserves	-	-	-	-
Tax recognised directly in equity	-	-	12,016	12,016
At 25 January 2020	1	(25,647)	3,292,469	3,266,823

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

1. Accounting policies

General information

The Company was incorporated and is registered in the United Kingdom.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006.

The financial statements have been prepared on the historical cost basis except for certain financial instruments and share based payment liabilities which are measured at fair value. The financial statements are for the 52 weeks to 25 January 2020 (last year 52 weeks to 26 January 2019) and the principal accounting policies adopted are set out below. These accounting policies have been applied consistently, other than where new policies have been adopted. The Company's financial statements are presented in Pounds Sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

The Company participates in the NEXT Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary companies. Accordingly, the assessment of going concern considered both the financial position and forecasts of the NEXT Group. The directors, report that, having reviewed current performance and forecasts, they have reasonable expectation that the Company has adequate resources to continue its operations for the foreseeable future. As part of this review, a letter of support for the Company for at least 12 months from the date of signing has been signed by the directors of NEXT Plc. For this reason, the directors have continued to adopt the going concern basis in preparing the financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).

IFRS 7, 'Financial instruments: Disclosures'.

Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).

Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:

iii. Paragraph 79(a)(iv) of IAS 1;

iv. Paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and

v. Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).

The following paragraphs of IAS 1, 'Presentation of financial statements':

- 10(d) (statement of cash flows);
- 16 (statement of compliance with all IFRS);
- 38A (requirement for minimum of two primary statements including cash flow statements);
- 38B-D (additional comparative information);
- 111 (statement of cash flows information); and

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

- 134-136 (capital management disclosures).

IAS 7, 'Statement of cash flows'.

Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).

The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

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

This is a departure from the requirements of the Companies Act 2006 which requires amortisation of goodwill. However, the departure is necessary in order that the financial statements show a true and fair view, as the carrying value of goodwill is not considered to reduce gradually over its life. By recognising any impairments as they arise, this better reflects the true carrying value of the goodwill and is consistent with FRS 101.

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

Plant and vehicles 6 – 25 years

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

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

Customer and Other Receivables
Customer receivables are outstanding customer balances less an allowance for impairment. Customer receivables are recognised when the Company becomes party to the contract which happens when the goods are despatched. They are derecognised when the rights to receive the cash flows have expired e.g. due to the settlement of the outstanding amount or where the Company has transferred substantially all the risks and rewards associated with that contract. Other trade receivables are stated at invoice value less an allowance for impairment. Customer and other receivables are subsequently measured at amortised cost as

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

the business model is to collect contractual cash flows and the debt meets the Solely Payment of Principal and Interest (SPPI) criterion.

Impairment

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

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

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

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

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

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

Impairment charges in respect of customer receivables are recognised in the Profit and Loss Account within cost of sales.

Delinquency is taken as being in arrears and credit impaired is taken as being the loan has defaulted, which is considered to be the point at which the debt is passed to an internal or external Debt Collection Agency (DCA) and a default registered to a Credit Reference Agency (CRA), or any debt 90 days past due. Delinquency and default are relevant for the estimation of ECL, which segments the book by customer indebtedness, banded into very low risk, low risk, medium risk and high risk, by arrears stage.

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

The key assumptions in the ECL calculation are:
PD: The "Probability of Default" is an estimate of the likelihood of default over the expected lifetime of the debt. NEXT has assessed the expected lifetime of customer receivables and other trade receivables, based on historical payment practices. The debt is segmented by arrears stage, Experian's Consumer Indebtedness Index (a measure of consumers' affordability) and expected time of default.
EAD: The "Exposure at Default" is an estimate of the exposure at that future default date, taking into account expected changes in the exposure after the reporting date, i.e. repayments of principal and interest, whether scheduled by the contract or otherwise and accrued interest from missed payments. This is stratified by arrears stage, Experian's Consumer Indebtedness Index and expected time of default.
LGD: The "Loss Given Default" is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that NEXT would expect to receive, discounted at the original effective interest rate. It is usually expressed as a percentage of the EAD. NEXT includes all cash collected over five years from the point of default.

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

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

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

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

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

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

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

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

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

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

Bank borrowings

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

Turnover

Turnover represents the fair value of amounts receivable for goods and services and is stated net of discounts, value added taxes and returns. Revenue is recognised when control of the goods or services are transferred to the customer i.e. when the customer accepts delivery of those goods.

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

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

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

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

Derivative financial instruments and hedge accounting

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). The classification is based on two criteria:

- the Company's business model for managing the assets; and
- whether the instruments' contractual cash flows represent "Solely Payments of Principal and Interest" on the principal amount outstanding (the "SPPI criterion").

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

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

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

Subsequent measurement

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

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

Derecognition

A financial asset is primarily derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third-party under a "pass-through" arrangement; and either a) the Company has transferred substantially all the risks and rewards of the asset, or b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

Impairment – financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The most significant financial assets of the Company are its intercompany receivables, which are referred to as "Amounts owed by parent undertaking" and "Amounts owed by other Group undertakings". ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. For trade and customer debtors the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables,

Financial liabilities

Initial recognition and measurement

The Company has classified its financial liabilities as follows:

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

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

Subsequent measurement

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

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

Derecognition

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

Offsetting of financial instruments

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

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

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

Derivative financial instruments ("derivatives") are used to manage risks arising from changes in foreign exchange rates impacting the Company's transactions. In accordance with its treasury policy, the Company does not enter into derivatives for speculative purposes. Foreign exchange derivatives are stated at their fair value, being the estimated amount that the Company would receive or pay to terminate them at the Balance Sheet date based on prevailing foreign currency rates.

The Company designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Cash flow hedges that qualify for hedge accounting

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

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

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss, since the hedged item affects profit or loss (for example, through cost of sales).

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

Hedge documentation

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

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

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

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

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

Pension arrangements

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

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

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

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

Full details of the scheme are available in NEXT plc annual accounts. Please refer to Note 20 in those accounts for further details.

Lease Accounting

Group as lessee

At inception of a contract the Company assesses whether the contract is or contains a lease. A lease is present where the contract conveys, over a period of time, the right to control the use of an identified asset in exchange for consideration.

Where a lease is identified the Company recognises a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

Lease liability – initial recognition

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted at the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments such as those that depend on an index or rate (such as RPI), initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options where the Company is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is split between current and non-current liabilities.

Lease liability – subsequent measurement

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability – re-measurement

The lease liability is re-measured where:

- there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate or;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used) or;
- the lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

When the lease liability is re-measured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in profit or loss. Where the lease liability is denominated in a foreign currency it is retranslated at the Balance Sheet date with foreign exchange gains and losses recognised in profit or loss.

Right-of-use asset – initial recognition

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

Where the Company has an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

The right-of-use asset is presented as a separate line in the Balance Sheet.

Right-of-use asset – subsequent measurement

Right-of-use assets are depreciated over the shorter of the lease term and useful life of the underlying asset.

Impairment

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment – non-financial assets' policy.
Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.
As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

Short term leases and low value assets

For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Significant areas of estimation and judgment

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

a) Recoverable amount of Online customer receivables

The provision for potentially irrecoverable debtors (refer to Note 15) is calculated using a combination of internally and externally sourced information, including historical default and collection rates and other credit data. The basis for identifying when debtors are potentially impaired has been applied consistently. A 2% movement in the expected rate of cash collection would move the provision by £2m.

b) Net realisable value of inventories

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

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

1. Accounting policies (continued)

c) Defined benefit pension valuation

The assumptions applied in determining the defined benefit pension obligation (Note 19), are particularly sensitive to small changes in assumptions. Advice is taken from a qualified actuary to determine appropriate assumptions at each Balance Sheet date. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of high quality UK corporate bonds, with extrapolated maturities corresponding to the expected duration of the obligation. The mortality rate is based on publicly available mortality tables.

Adoption of new accounting standards, interpretations and amendments

For the financial period ended 25 January 2020 the Company has adopted IFRS 16 "*Leases*" for the first time. The nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

IFRS 16 "*Leases*"

IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. The Group applied IFRS 16 retrospectively, restating prior year comparatives. It applied the practical expedient to grandfather the definition of a lease on transition and apply the recognition exemption for both short term and low value leases.

Impact to financial statements

Restating the 2018/19 financial statements upon transition, NEXT recognised an opening right-of-use asset of £4.8m and a lease liability of £0.6m. Including adjustments for working capital which existed under IAS 17, the retained earnings of the Group on transition increased by £0.1m.

The most significant lease liabilities relate to office related equipment. The lease liability under IFRS 16 is lower than that shown in the operating lease commitment note previously presented (in accordance with IAS 17) primarily due to the discounting of the future payments.

The opening right-of-use asset is higher than the opening lease liability as it includes prepaid vehicle leases.

The Profit and Loss Account reflected an decrease to profit before taxation for the period ending January 2020 of £39k (2019: £49k). Operating profit decreased by £18k (2019: £26k) as the depreciation on right-of-use assets was higher than the IAS 17 rental charge. Interest costs charged to the Profit and Loss Account increased by £21k (2019: £23k) with the addition of higher finance costs on the newly recognised lease liability. The adoption of IFRS 16 did not impact the Company's effective tax rate.

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

2. Turnover

	2020 £000	2019 £000
Sale of goods	3,866,276	3,787,265
Directory account interest	268,682	250,322
Royalties	5,322	5,549
	4,140,280	4,043,136

Turnover by geographical location:

	2020 £000	2019 £000
United Kingdom	3,564,585	3,564,135
Rest of Europe	299,795	258,901
Asia	55,649	51,187
Middle East	185,214	133,773
Rest of World	35,037	35,140
	4,140,280	4,043,136

3. Operating Profit

This is stated after charging/(crediting):

	2020 £000	2019 £000
Depreciation on owned assets	93,906	94,966
Depreciation on right-of-use assets	309	282
Loss on disposal of tangible assets	2	500
Impairment of tangible assets	4,123	1,468
Net foreign exchange gains	(7,767)	(10,800)
Auditors' remuneration:		
Audit services	304	354
Assurance services	32	57
Cost of stock recognised as an expense	1,534,728	1,518,184
Write down of stock to net realisable value	110,013	96,104
Trade receivables:		
Impairment charge	53,503	58,353
Amounts recovered	(2,053)	(5,914)

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

4. Staff costs

	2020	*2019*
	£000	*£000*
Wages and salaries	391,309	385,168
Social security costs	26,583	26,727
Other pension costs	22,610	18,512
	440,502	430,407
Share based payments expense:		
Equity settled	11,486	10,871
Cash settled	(346)	(850)
	451,642	440,428

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

	2020	*2019*
	No.	*No.*
Retail, Online and Finance	31,539	32,205
Other activities	78	75
	31,617	32,280

If the number of hours worked were converted on the basis of a full working week, the equivalent average number of full-time employees would have been 17,324 (2019: 17,766).

5. Directors' emoluments

None of the directors received any remuneration from the Company for the period ended 25 January 2020 (2019: £nil). All of the directors were also directors of the ultimate parent company, NEXT plc, and their emoluments for services to the Group are disclosed in the report and accounts of that company. The directors believe that it is not practicable to apportion their remuneration between qualifying services for this company and other Group companies in which they hold office.

6. Interest receivable

	2020	2019
	£000	£000
Interest on bank accounts	2	15

7. Interest Payable

	2020	2019
	£000	£000
Interest on bank loans and overdrafts	57	23
Interest payable to Group undertakings	122,430	117,624
Finance cost on lease liability	21	23
Total interest payable	122,508	117,670

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

8. Tax on profit

	2020 £000	2019 £000
Current tax:		
UK corporation tax on profits of the financial period	110,223	110,272
UK corporation tax in respect of previous periods	492	(2,545)
	110,715	107,727
Overseas tax	1,837	1,630
Total current tax	112,552	109,357
Deferred tax:		
Origination and reversal of temporary differences	(7,697)	(4,290)
Adjustments in respect of previous periods	475	2,104
IFRS 16 transition adjustment	-	(9)
Tax expense reported in the Profit and Loss Account	105,330	107,162

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

	2020 %	2019 %
UK corporation tax rate	19.0	19.0
Expenses not deductible for tax purposes	0.2	1.2
Branch exemption	(0.4)	(0.3)
Deferred tax rate change	0.4	0.3
Tax under provided in previous periods	0.2	-
Effective total tax rate on profit before taxation	19.4	20.2

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

	2020 £000	2019 £000
Deferred tax:		
Movements on derivative instruments	(5,326)	13,473
Tax (charge)/credit in the Statement of Comprehensive Income	(5,326)	13,473

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

	2020 £000	2019 £000
Current tax:		
Share based payments	3,268	917
Deferred tax:		
Share based payments	8,748	(1,777)
Tax credit/(charge) in the Statement of Changes in Equity	12,016	(860)

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

8. Tax on profit (continued)

Deferred tax asset

	2020 £000	2019 £000
Accelerated capital allowances	20,750	15,706
Revaluation of derivatives to fair value	5,253	(73)
Share based payments	16,128	5,170
Other temporary differences	49	81
	42,180	20,884

The movement in the financial year is as follows:

	2020 £000	2019 £000
Opening position	20,884	33,669
Credited/(charged) to the Profit and Loss Account:		
Capital allowances	5,044	4,141
Share based payments	2,210	378
Other temporary differences	(32)	(2,063)
IFRS 16 transition adjustment	-	9
Recognised directly in the Statement of Comprehensive Income	5,326	(13,473)
Recognised directly in the Statement of Changes in Equity	8,748	(1,777)
Closing position	42,180	20,884

9. Dividends

	2020 £000	2019 £000
Equity dividends of nil (2019: £600,000) per share	-	600,000

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

10. Intangible assets

	Goodwill £000
Carrying amount	
At 25 January 2020 and 26 January 2019	2,496,368

Goodwill relates entirely to the acquisition of the business and net assets of NEXT Near East Limited on 1 February 2003 and is tested for impairment at the balance sheet date. The recoverable amount of goodwill at 25 January 2020 was measured on the basis of value in use. As this exceeded carrying value, no impairment loss was recognised.

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

11. Tangible assets

	Plant and vehicles £000
Cost:	
At 26 January 2019	1,335,255
Additions	48,287
Transfer to Group undertakings	-
Disposals	(37,836)
At 25 January 2020	1,345,706
Accumulated depreciation:	
At 26 January 2019	1,004,391
Provided during the financial period	93,906
Impairment	4,123
Transfer to Group undertakings	-
Disposals	(37,735)
At 25 January 2020	1,064,685
Carrying amount:	
At 25 January 2020	281,021
At 26 January 2019	330,864

At 25 January 2020 the Company had entered into contractual commitments for the acquisition of plant and vehicles amounting to £5,376,000 (2019: £13,967,000).

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

12. Leases

Right of use assets	*2020* *£000*	*2019* *£000*
Equipment	474	647
Vehicles	3,677	3,962
	4,151	4,609

Lease liability	*2020* *£000*	*2019* *£000*
Current	293	292
Non-current	293	522
	586	814

	2020 *£000*	*2019* *£000*
Additions to right-of-use asset	43	214

Depreciation on right-of-use assets	*2020* *£000*	*2019* *£000*
Equipment	222	160
Vehicles	87	122
	309	282

	2020 *£000*	*2019* *£000*
Finance costs on leases	21	23

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

13. Stock

	2020 £000	2019 £000
Work in progress	4,219	4,618
Finished goods and goods for resale	522,874	495,025
	527,093	499,643

14. Customer and other receivables due after more than one year

Included within current assets is a deferred tax asset of £42,180,000 (2019: £20,884,000) which is due after more than one year, details of which can be found at Note 8.

15. Customer and other receivables due within one year

	2020 £000	2019 £000
Online customer receivables	1,410,595	1,377,984
Less: allowance for doubtful debts	(171,552)	(165,543)
	1,239,043	1,212,441
Other trade receivables	16,741	12,117
Less: allowance for doubtful debts	(178)	(97)
	1,255,606	1,224,461
Amounts owed by Group undertakings	486,400	120,393
Amounts owed by related parties	292	206
Other receivables	10,016	10,988
Derivative financial instruments	1,680	11,229
Prepayments and accrued income	16,492	12,522
	1,770,486	1,379,799

Amounts due from Group undertakings are repayable on demand.

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

16. Cash at bank and in hand

	2020 £000	2019 £000
Cash at bank and in hand	68,213	111,251

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

17. Creditors: amounts falling due within one year

	2020 £000	2019 Restated £000
Bank loans and overdrafts	17,433	75,240
Trade payables	200,888	187,819
Amounts owed to parent undertaking	1,214,842	1,297,454
Amounts owed to other Group undertakings	97,303	73,660
Amounts owed to associates	2	33
Other taxation and social security	81,846	77,885
Lease liabilities	293	292
Corporation tax	104,454	106,992
Derivative financial instruments	32,580	10,797
Accruals and deferred income	115,038	110,321
Refund liability	5,449	6,112
Deferred turnover from sale of gift cards	74,878	75,358
	1,945,006	2,021,963

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

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

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

Amounts owed to parent undertaking are interest bearing.

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

18. Creditors: amounts falling due after one year

	2020 £000	2019 Restated £000
Lease liabilities	293	522

19. Pension benefits

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

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

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

The 2013 Plan was established in 2013 via the transfer of liabilities and assets from the Original Plan. This arrangement provides benefits to the majority of members whose pensions were not insured with Aviva. From November 2012, the future accrual of benefits for remaining active employee members has been based on pensionable earnings frozen at that time, rather than final earnings.

In August 2018, the Trustees of the 2013 Plan undertook a buy-in in respect of certain pensioner members of the 2013 Plan, with a premium paid of £94m. As at 25 January 2020 this buy-in policy has a value of £92m (2019: £79m) within the pension scheme assets.

Within the 2013 Plan, following a High Court ruling, a proportion of members' benefits are being equalised to address the inequalities that arise due to differing Guaranteed Minimum Pensions (GMP) entitlements for men and women. This equalisation has increased the IAS 19 liabilities of the Plan by £0.4m and was recognised in the 2019 disclosure.

The IAS 19 valuation of the defined benefit obligation was undertaken by an independent qualified actuary as at 26 January 2019 using the projected unit credit method. The net surplus in the plan on an IAS 19 basis at that date was £133.4m (2019: net surplus £125.0m). Further details on changes to the scheme in the period and the actuarial assumptions used can be found in the financial statements of the Parent Company, NEXT plc.

Defined contribution section

The defined contribution section of the 2013 Plan was closed to new members in 2018. Members elect to pay either 5% of their pensionable earnings which is matched by the Group. For death prior to retirement, a

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

19. Pension benefits (continued)

lump sum of three times the member's base salary at the previous April is payable along with the current value of the member's fund.

Defined benefit section

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

The defined benefit section provides a lump sum death in service benefit and dependants' pensions on death in service or following retirement. In the case of ill-health retirement, only the accrued pension is payable. All benefits are subject to 2013 Plan limits. Increases to pensions in payment are at the discretion of the Trustee although pensionable service post 1997 is subject to limited price indexation. From 2006, sales and profit related bonuses were excluded from pensionable earnings and the normal retirement age under the Original Plan was increased from 60 to 65.

Certain members whose accrued or projected pension fund value exceeds their personal lifetime allowance are provided with benefits through an unfunded, unapproved supplementary pension arrangement. The relevant members contribute towards the additional cost of providing these benefits by a payment of 5% on all pensionable earnings to the 2013 Plan. Since April 2011, where existing members have reached either the annual or lifetime pension contributions limits, the Group 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).

Full actuarial valuation

An actuarial valuation of the 2013 Plan was undertaken as at 30 September 2016 by Willis Towers Watson, who acted as the 2013 Plan Actuary to the Trustees until April 2018. From May 2018, Mercer now act as actuary to the Trustees. The valuation showed a funding deficit on the Technical Provisions basis required by legislation of £70.2m at that date.

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

At 31 December 2018 the 2013 Plan was estimated to be fully funded on a Technical Provisions basis with a surplus in the region of £28m, therefore a deficit contribution was not payable in January 2020.

With effect from January 2018, the Group 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.

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

20. Contingent liabilities

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

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

21. Share capital

				Authorised
		2020		*2019*
	No.	*£000*	*No.*	*£000*
Ordinary shares of £1 each	1,000	1	1,000	1

		Allotted, called up and fully paid		
		2020		*2019*
	No.	*£000*	*No.*	*£000*
Ordinary shares of £1 each	1,000	1	1,000	1

22. Equity-settled share based payments

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

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

Management and Sharesave options
Options were exercised on a regular basis throughout the period and the weighted average share price during this period was £64.35 (2019: £53.95). Options outstanding at 25 January 2020 are exercisable at prices ranging between £20.70 and £70.80 (2019: £13.99 to £70.80), and have a weighted average remaining contractual life of 6.2 years (2019: 5.9 years), as analysed overleaf:

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

22. Equity-settled share based payments (continued)

	2020		2019	
	No. of options outstanding	Weighted average remaining contractual life (years)	No. of options outstanding	Weighted average remaining contractual life (years)
Exercise price range				
£13.99 – £41.09	1,222,092	5.9	1864,454	5.1
£41.12 - £48.23	725,296	2.9	656,207	3.5
£48.38	929,706	8.2	1,015,671	9.2
£51.84 - £61.27	1,179,154	8.4	764,610	6.6
£66.95 - £70.80	781,625	4.7	922,798	5.7
Outstanding at end of year	4,837,873	6.2	5,223,740	5.9

SMP options

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

The weighted average remaining contractual life of these options is 5.0 years (2019: 5.4 years). During the year ending 25 January 2020 and 26 January 2019 no SMP options were exercised as the awards did not vest.

Equity-settled LTIP awards

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

The weighted average remaining contractual life of these options is 1.4 years (2019: 1.5 years).

23. Related party transactions

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

	2020 £000	2019 £000
Transactions with Choice Discount Stores Limited (associate of NEXT plc):		
Sale of goods	4,096	4,497
Trade receivables	292	206
Transactions with Custom Gateway (associate of NEXT plc):		
Expenses recharged	691	-
Sale of goods	2	-
Trade payables	(2)	-

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

24. Ultimate parent company and controlling party

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

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

25. IFRS 16 transition note

Impact on profit for the period	*Note*	*52 weeks to 25 January 2020 Excluding IFRS 16*	*Adjustments on Adoption of IFRS 16*	*52 weeks to 25 January 2020*
		£000	*£000*	*£000*
Turnover		4,140,280	-	4,140,280
Cost of sales	(i)	(2,662,391)	(18)	(2,662,409)
Gross profit		1,477,889	(18)	1,477,871
Distribution costs		(614,492)	-	(614,492)
Administrative expenses		(199,063)	-	(199,063)
Operating profit		664,334	(18)	664,316
Interest receivable and similar income		2	-	2
Interest payable and similar expenses	(i)	(122,487)	(21)	(122,508)
Profit before taxation		541,849	(39)	541,810
Tax on profit	(v)	(105,337)	7	(105,330)
Profit for the financial period		436,512	(32)	436,480

Impact on profit for the prior period	*Note*	*52 weeks to 26 January 2019 Excluding IFRS 16*	*Adjustments on Adoption of IFRS 16*	*52 weeks to 26 January 2019 Restated*
		£000	*£000*	*£000*
Turnover		4,043,136	-	4,043,136
Cost of sales	(i)	(2,654,995)	(26)	(2,655,021)
Gross profit		1,388,141	(26)	1,388,115
Distribution costs		(543,325)	-	(543,325)
Administrative expenses		(188,076)	-	(188,076)
Operating profit		656,740	(26)	656,714
Amounts written off investments		(7,672)	-	(7,672)
Interest receivable and similar income		15	-	15
Interest payable and similar expenses	(i)	(117,647)	(23)	(117,670)
Profit before taxation		531,436	(49)	531,387
Tax on profit	(v)	(107,171)	9	(107,162)
Profit for the financial period		424,265	(40)	424,225

Notes to the Financial Statements
for the 52 week period ended 25 January 2020

25. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 25 January 2020

	Note	25 January 2020 £000	IFRS 16 Adjustment £000	25 January 2020 £000
Fixed assets				
Intangible assets		2,496,368	-	2,496,368
Tangible assets		281,021	-	281,021
Right of use asset	(ii)	-	4,151	4,151
Deferred tax asset	(v)	-	-	-
		2,777,389	4,151	2,781,540
Current assets				
Stock		527,093	-	527,093
Debtors				
Amounts falling due after more than one year		42,180	-	42,180
Amounts falling due within one year	(iv)	1,774,106	(3,620)	1,770,486
Cash at bank and in hand		68,213	-	68,213
Right of return asset		22,610	-	22,610
		2,434,202	(3,620)	2,430,582
Creditors: amounts falling due within one year	(iii)	(1,944,734)	(272)	(1,945,006)
Net current assets		489,468	(3,892)	485,576
Total assets less current liabilities		3,266,857	259	3,267,116
Creditors: amounts falling due after one year	(iv)	-	(293)	(293)
Net assets		3,266,857	(34)	3,266,823
Capital and reserves				
Share capital		1	-	1
Fair Value Reserve		(25,647)	-	(25,647)
Profit and loss account		3,292,503	(34)	3,292,469
Total equity		3,266,857	(34)	3,266,823

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

25. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 26 January 2019

	Note	*26 January 2019*	*IFRS 16 Adjustment*	*26 January 2019 Restated*
Fixed assets		*£000*	*£000*	*£000*
Intangible assets		2,496,368	-	2,496,368
Tangible assets		330,864	-	330,864
Right of use asset	(ii)	-	4,609	4,609
Deferred tax asset	(v)	-	-	-
		2,827,232	4,609	2,831,841
Current assets				
Stock		499,643	-	499,643
Debtors				
Amounts falling due after more than one year		20,884	-	20,884
Amounts falling due within one year	(iv)	1,383,616	(3,817)	1,379,799
Cash at bank and in hand		111,251	-	111,251
Right of return asset		23,400	-	23,400
		2,038,794	(3,817)	2,034,977
Creditors: amounts falling due within one year	(iii)	(2,021,691)	(272)	(2,021,963)
Net current assets		17,103	(4,089)	13,014
Total assets less current liabilities		2,844,335	520	2,845,855
Creditors: amounts falling due after one year	(iv)	-	(522)	(522)
Net assets		2,844,335	(2)	2,844,333
Capital and reserves				
Share capital		1	-	1
Fair Value Reserve		359	-	359
Profit and loss account		2,843,975	(2)	2,843,973
Total equity		2,844,335	(2)	2,844,333

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

25. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 27 January 2018

	Note	*27 January 2018*	*IFRS 16 Adjustment*	*27 January 2018 Restated*
Fixed assets		*£000*	*£000*	*£000*
Intangible assets		2,496,368	-	2,496,368
Tangible assets		353,157	-	353,157
Right of use asset	(ii)	-	4,841	4,841
Deferred tax asset	(v)	-	-	-
		2,849,525	4,841	2,854,366
Current assets				
Stock		465,228	-	465,228
Debtors				
Amounts falling due after more than one year		33,678	(9)	33,669
Amounts falling due within one year	(iv)	1,187,094	(3,955)	1,183,139
Cash at bank and in hand		32,314	-	32,314
Right of return asset		23,400	-	23,400
		1,741,714	(3,964)	1,737,750
Creditors: amounts falling due within one year	(iii)	(1,635,544)	(239)	(1,635,783)
Net current assets		106,170	(4,203)	101,967
Total assets less current liabilities		2,955,695	638	2,956,333
Creditors: amounts falling due after one year	(iv)	(547)	(600)	(1,147)
Net assets		2,955,148	38	2,955,186
Capital and reserves				
Share capital		1	-	1
Fair Value Reserves		(59,159)	-	(59,159)
Profit and loss account		3,014,306	38	3,014,344
Total equity		2,955,148	38	2,955,186

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

25. IFRS 16 transition note (continued)

(i) Profit and Loss Account

Under the previous accounting standard for leases, IAS 17, lease costs were recognised on straight line basis over the term of the lease. The Company recognised these costs within cost of sales and distribution costs.

On adoption of IFRS 16 these costs have been removed and replaced with costs calculated on an IFRS 16 basis. The impact of removing these costs on the January 2020 Profit and Loss Account was £292k (2019: £256k).

Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Company has recognised the depreciation costs on the right-of-use asset in cost of sales. The impact of this adjustment in the January 2020 Profit and Loss Account was £309k (2019: £282k).

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to cost of sales. The net impact of this adjustment in the January 2020 Profit and Loss Account was £18k (2019: £26k).

Under IFRS 16 finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the January 2020 Profit and Loss Account was £21k (2019: £23k).

The net impact of the above adjustments to the January 2020 profit before tax was £39k (2019: £49k).

(ii) Right-of-use asset

IFRS 16 has resulted in the recognition of a right-of-use asset. This asset represents the Company's contractual right to access an identified asset under the terms of the lease contract.

(iii) Lease liability

IFRS 16 has resulted in the recognition of a lease liability. This liability represents the Company's contractual obligation to minimum lease payments during the lease term.

The element of the liability payable in next 12 months is recognised as a current liability with the balance recognised in non-current liabilities.

(iv) Working capital

Under IAS 17 certain lease prepayments, accruals and similar amounts were held on the balance sheet as part of working capital. Such balances are no longer recognised as all payments and related costs are reflected in either the right-of-use asset or the lease liability.

(v) Taxation

A deferred tax asset has been recognised on the transition to IFRS 16 representing the timing difference on the amounts taken to reserves. The deferred tax asset created at the point of transition will unwind over the life of the leases held at the date of transition.

Notes to the Financial Statements

for the 52 week period ended 25 January 2020

26. Post Balance Sheet Event

Subsequent to the balance sheet date the spread of Covid 19 has adversely impacted on the operations of the business. In particular the Retail and Online operations temporarily ceased to trade at the end of March 2020. These operations subsequently reopened; Retail has not yet reached the levels of pre-Covid 19 trade and has been subject to further temporary cessations of trade during Autumn 2020 and at the start of 2021. As a result of the closure, and our updated forecast, we have assessed assets across the Company for potential impairment with none being identified.