next plc

Results for the Year Ending January 2019

Date:	Embargoed until 07.00hrs, Thursday 21 March 2019	
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CHAIRMAN'S STATEMENT

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

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

Total[1] Group sales were £4.2bn. Full price sales[2] were up +3.1%. Online[3] full price sales increased by +14.8% and Retail full price sales declined by -7.3%.

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

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

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

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

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

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

Michael Roney
Chairman

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

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

[3] Formerly known as NEXT Directory.

CHIEF EXECUTIVES REVIEW

DOCUMENT PURPOSE AND STRUCTURE

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

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

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

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PART 1
FINANCIAL OVERVIEW

NEXT Brand full price sales[4] were up **+3.1%** on last year and total sales[5] (including markdown sales) were up +2.6%. In line with the guidance we gave in our January 2019 trading statement, Group profit was £722.9m, down **-0.4%** on last year and Earnings Per Share (EPS) were up **+4.5%**.

TOTAL SALES	**Jan 2019 £m**	**Jan 2018 £m**	
Retail	1,955.1	2,123.0	- 7.9%
Online	1,918.8	1,672.4	+14.7%
Finance	250.3	223.2	+12.1%
Brand	**4,124.2**	**4,018.6**	**+2.6%**
Other[6]	96.7	98.9	
Total Group sales	**4,220.9**	**4,117.5**	+2.5%
Statutory revenue	4,167.4	4,090.7[7]	

PROFIT and EPS	**Jan 2019 £m**	**Jan 2018[8] £m**	
Retail	212.3	268.7	- 21.0%
Online	352.6	309.8	+13.8%
Finance (after funding costs)	121.2	111.9	+8.4%
Brand	**686.1**	**690.4**	**- 0.6%**
Other	35.8	28.9	
Recharge of interest to Finance	40.1	40.6	
Operating profit	762.0	759.9	+0.3%
Net external interest	(39.1)	(33.8)	
Profit before tax	**722.9**	**726.1**	**- 0.4%**
Taxation	(132.5)	(134.3)	
Profit after tax	**590.4**	**591.8**	
Earnings Per Share	**435.3p**	**416.7p**	**+4.5%**
Ordinary dividends per share	165.0p	158.0p	+4.4%

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

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

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

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

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

PART 2
THE BIG PICTURE

The World Moves On

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

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

The Changing Shape of NEXT

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

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

Sales by Channel	**2003**	**2018**
Retail	77%	47%
Directory	23%	53%
Total	100%	100%

Directory Sales by Brand	**2003**	**2018**
NEXT	100%	78%
3rd Party Brands	-	22%
Total	100%	100%

Directory Sales by Location	**2003**	**2018**
UK	100%	83%
Overseas	-	17%
Total	100%	100%

The Cost of Change

The evolution required has not been easy nor is it without cost. Retail costs such as rent, rates and service charge have remained fixed as sales have fallen, whilst every additional order Online has increased variable costs, such as warehouse picking and delivery costs (page 45). Last year, every Pound of NEXT business that transferred from Retail to Online cost an additional 6p. In the short to medium term, the costs of structural change will persist.

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

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

Retail Shops in an Online World

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

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

- The management of Retail costs and efficiencies to ensure that our Retail costs decline in line with reducing sales (page 26).
- The effective renegotiation, re-location or closure of stores as and when their leases come up for renewal (pages 14 and 23).
- The maintenance of retail standards and stock control to ensure Retail sales losses are minimised (page 27).

How Much Space Do We Need?

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

No one knows how far retail rents will fall but recent evidence is encouraging. Last year we negotiated a rent reduction[9] of -29% on the leases that we renewed; we experienced a reduction of -25% on leases renewed in the previous year and we expect similar reductions in the year ahead (page 24). Our average lease term[10] is 6 years. A more benign outlook for our rental costs (which longer term will feed through into lower rates as well) has important implications for the long-term viability of our store portfolio and is considered later in our fifteen-year stress test.

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

The Wider Effects of the Internet - Reducing Barriers to Entry

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

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

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

The Threat

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

The Opportunities

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

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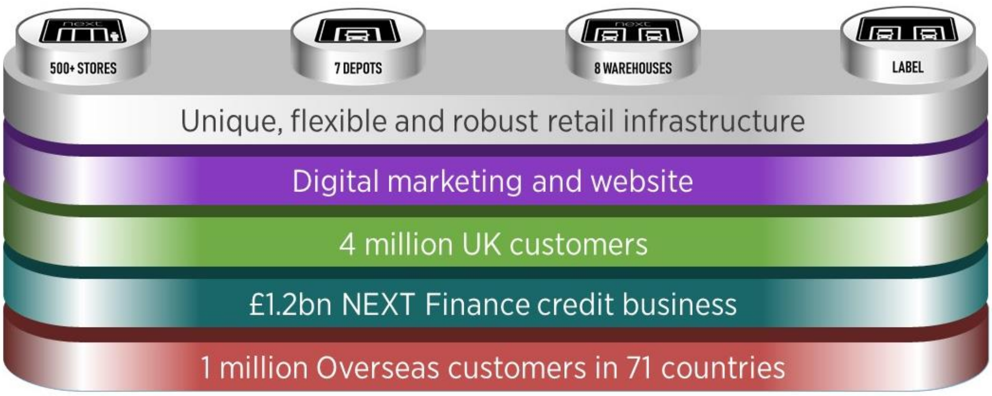
[9] Rent reductions include the release of any unspent capital contributions over the term of the lease.

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

The NEXT Online Platform

The scale of our Online business in the UK has allowed us to develop an increasingly effective Platform for selling clothing and homeware in the UK and Eire. At the heart of our Platform are eight million square feet of highly mechanised warehousing capable of handling flat packed, hanging, palletised and furniture items, seven wholly owned distribution depots in addition to 500 stores. In the year ahead we are looking to increase the reach of our Platform through gaining access to stock in our partners' warehouses (page 32).

But we are beginning to think of the distribution network as only one part of five Platform layers, each of which we aim to improve in the years ahead. The other layers are: Digital Marketing and Website (page 30), UK Customer Base (page 30), Finance credit business (page 35) and Overseas customer base (page 34).



The Growth of LABEL

We have taken advantage of the increasing power of our Platform to sell other brands through our third-party branded business, LABEL (including Lipsy) which now turns over £400m and delivers a profit of £66m (page 31).

Should we Compete with Ourselves?

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

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

Objectives for NEXT Platform

We have three objectives for the NEXT Online Platform:

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

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

Of course, we have to make a profit, financial discipline is at the heart of everything we do. We have managed our LABEL net margins to 16%, high enough to withstand the inevitable vagaries of the fashion world, but not so high as to be uncompetitive. Once we have made our margin we give everything else back to our customers and partners. Last year we achieved a number of efficiencies and as a result reduced the commission we charge our partners; if we achieve more savings we intend to pass them on.

The Opportunity Overseas

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

In overseas markets NEXT is a challenger brand and in most major markets we can now offer our whole range at prices commensurate with the UK. Low barriers of entry alongside the ability to tap into overseas third-party platforms have allowed us to make good progress in developing a profitable and fast growing £360m overseas Online business (page 33).

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

Fifteen-Year Stress Test

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

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

The model implies Group Sales growth over the period of +3.0% and cash generation[11] of around **£12bn** over the next fifteen years, in addition to growing our Online next**pay** debtor book by another **£900m**. This revised stress test is set out in detail in the following section (page 13).

Not a Plan or a Forecast

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

A Way Through the Woods

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

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

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

Importance of Execution

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

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

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

[11] Cash generation is pre-tax and pre-shareholder distributions, but after capital expenditure and funding the increase in Online debtors.

Evolution – A way of working

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

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

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

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

Lunch, NEXT Head Office, Leicester

PART 3
FIFTEEN-YEAR STRESS TEST

The Nature of this Model

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

Step 1: Retail sales and costs walk-forward

Step 2: Projected Retail cash flows

Step 3: Adding Online cash flows

Step 4: Combined Group cash flows

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

STEP 1: RETAIL SALES AND COSTS WALK-FORWARD

Retail Sales Assumptions

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

Retail Closure Assumptions

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

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

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

Transfer of Retail Trade on Closure – Assumptions

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

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

Transfer of Trade Assumptions[12]	Sales transfer %
2 Stores within 5 miles	25%
1 Store within 5 miles	20%
1 Store within 10 miles	10%
No Stores within 10 miles	0%

We have not assumed any transfer of trade from Retail to Online when a store closes, we have assumed that 50% of store collections are transferred to stores within 10 miles and that the balance of collections switch to being delivered to home. This last assumption may be optimistic and in reality, some sales might be lost if customers are unable to collect and return their goods in local stores. This issue is addressed by altering the model to keep some loss-making stores open in order to service Online orders and returns (page 16).

Retail Rent Assumptions

We have assumed that during the term of any lease the rents will not come down. Understandably, landlords will not unilaterally agree to a rent reduction until a lease expires (or a break clause is exercisable). However, at lease break we are currently experiencing significant rent reductions where we are able to agree a new lease. Last year we agreed rent reductions of -29% in the stores where we agreed a new lease and we expect similar rent reductions on renewals agreed in the year ahead, with new lease terms averaging around five years in duration (page 23).

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

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

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

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

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

[12] We have assumed lower travel distances for stores in central London with transfer thresholds at 1.5 and 3 miles.

Alternative Use Rental Values

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

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

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

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

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

Important Caveat

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

Rates Assumptions

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

Retail Wage Cost Assumptions

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

Central Overheads

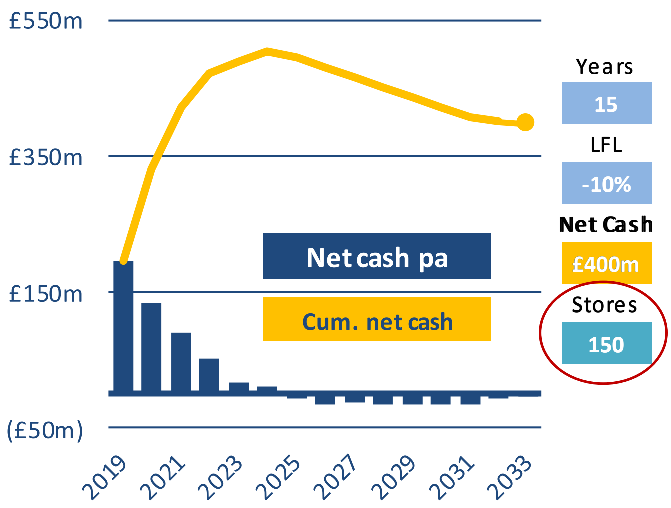
Most of our central overheads are shared between Online and Retail. Our buying, quality, sourcing, finance, HR, and systems teams serve both businesses. It is assumed that these costs are divided between the businesses in proportion to their turnover. So, as long as our total sales move forward, these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

STEP 2: PROJECTED RETAIL CASH FLOWS

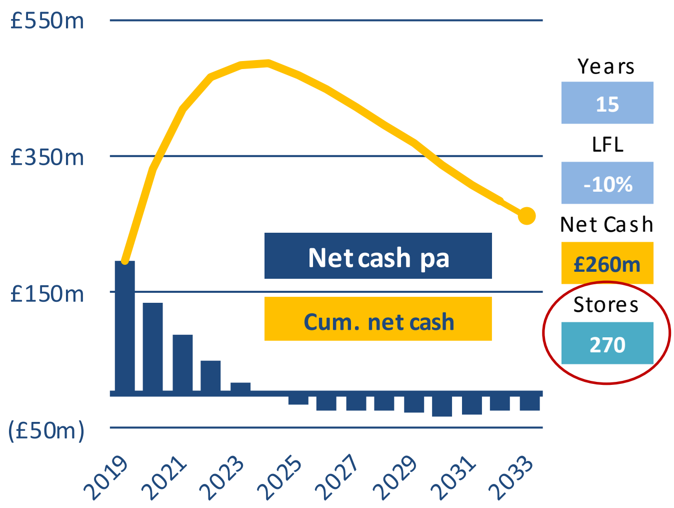
Preliminary Output, Store Numbers and Cash Flows

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

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



(a) Cash flows assuming closure of all loss-making stores



(b) Cash flows with 120 stores retained for Online services

The effect of keeping 120 stores open to service Online sales

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

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

STEP 3: ADDING ONLINE CASH FLOWS

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

Online Sales Growth Assumptions

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

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

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

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

Online Cost Assumptions

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

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

Finance

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

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

Group Capital Expenditure

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

STEP 4: COMBINED GROUP CASH FLOWS

Over the fifteen-year period, the model generates cash for the Group amounting to £12bn[13]. The cash flow in the final year is £1.1bn.

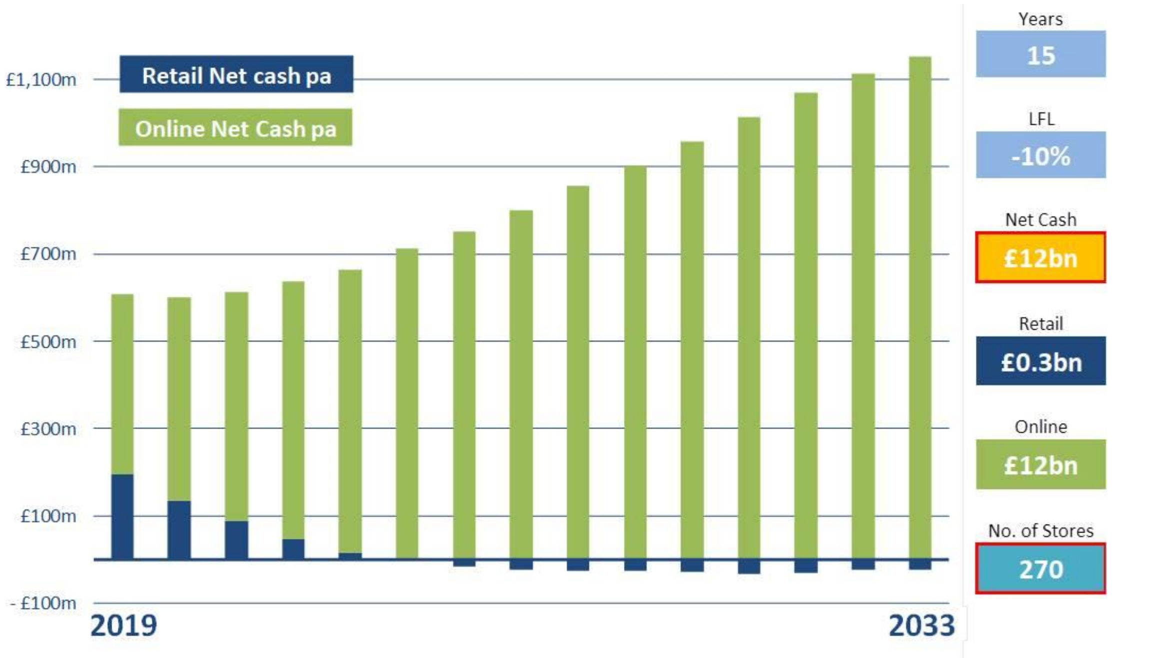
Summary of Key Inputs and Outputs

KEY INPUTS

SALES ASSUMPTIONS	
Retail LFLs	-10%
NEXT UK Online CAGR	+4.8%
LABEL CAGR	+8.4%
Online Overseas CAGR	+12.2%
Transfer of trade to a store within five miles	20%
COST, MARGINS AND CAPEX	
% of store wages that vary with sales	80%
2020 market rent as % of current rent	75%
Market rent decline beyond 2022	-5%
Average Group CAPEX per annum	£110m
Online net margins by channel	In line with 2018/19

KEY OUTPUTS

Cumulative cashflow over 15 years	**£12bn[13]**
Fifteen-year increase in debtor book	**£900m**
Year 15 Group cashflow	**£1.1bn**
Group fifteen-year CAGR	3.0%



[13] Rounded to the nearest one billion.

STRESS TEST CONCLUSION

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

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

PART 4
REVIEW OF 2018/19

FINANCIAL OVERVIEW

NEXT Brand full price sales[14] were up **+3.1%** and Brand total sales[15] (including markdown sales) were up +2.6% on last year. Group profit before tax was down **- 0.4%** and Earnings Per Share (EPS) were up **+4.5%** on last year**.**

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

TOTAL SALES	**Jan 2019**	**Jan 2018**	
	£m	**£m**	
Retail	1,955.1	2,123.0	- 7.9%
Online	1,918.8	1,672.4	+14.7%
Finance	250.3	223.2	+12.1%
Brand	**4,124.2**	**4,018.6**	**+2.6%**
Other[16]	96.7	98.9	
Total Group sales	**4,220.9**	**4,117.5**	**+2.5%**
Statutory revenue	4,167.4	4,090.7[17]	

PROFIT and EPS	**Jan 2019**	**Jan 2018[18]**	
	£m	**£m**	
Retail	212.3	268.7	- 21.0%
Online	352.6	309.8	+13.8%
Finance (after funding costs)	121.2	111.9	+8.4%
Brand	**686.1**	**690.4**	**- 0.6%**
Other	35.8	28.9	
Recharge of interest to Finance	40.1	40.6	
Operating profit	762.0	759.9	+0.3%
Net external interest	(39.1)	(33.8)	
Profit before tax	**722.9**	**726.1**	**- 0.4%**
Taxation	(132.5)	(134.3)	
Profit after tax	**590.4**	**591.8**	
Earnings Per Share	**435.3p**	**416.7p**	**+4.5%**
Ordinary dividends per share	165.0p	158.0p	+4.4%

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

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

[16] Other includes: NEXT Sourcing external sales, Franchise and Lipsy non-NEXT business.

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

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

NEXT RETAIL

SALES AND PROFIT

Full price Retail sales were down -7.3%, which was +1.2% ahead of our initial budget for the year. Total sales, including markdown sales, reduced by -7.9%. Net new space contributed +0.6% to total sales growth. Profits reduced by -21%, driven mainly by the diseconomies of scale caused by declining like-for-like[19] sales of -8.5%.

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

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

Net margin on total sales to January 2018		**12.7%**
Bought-in gross margin	Improved underlying bought-in gross margin added +0.2% to margin.	**+0.2%**
Markdown	Stock for Sale was down -13% with markdown sales down -11%. The combination of improved clearance rates and a higher participation of full price sales increased margin by +0.5%.	**+0.5%**
Store payroll	Productivity initiatives more than offset underlying pay increases.	**+0.1%**
Store occupancy	Falling like-for-like sales increased occupancy costs as a percentage of sales.	**- 2.0%**
Warehousing & distribution	Falling sales increased costs as a percentage of sales.	**- 0.6%**
Net margin on total sales to January 2019		**10.9%**

Anticipated Retail Margin in the Year Ahead

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

[19] Like-for-like sales is the change in sales from stores which have been open for at least one full year.

RETAIL SPACE

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

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

Looking ahead, we expect that trading space will increase by around 50,000 square feet during 2019, subject to lease renewal negotiations. We expect new stores to add +160k sq ft, mainline store closures to deduct -60k sq ft and clearance store closures to deduct -50k sq ft.

New space

Branch profitability[20] of the portfolio opened or extended in the last 12 months was 21% of VAT inclusive sales. Payback on the net capital invested was 27.5 months, which is marginally beyond our internal payback hurdle of 24 months and reflective of the difficulty in predicting new store performance in the current environment.

Plymouth, Marsh Mills

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

Store Closures

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

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

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

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

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

Over the last 12 months, following most store closures, we have seen an encouraging amount of sales transfer to nearby NEXT stores. On average this has been around 25% of the sales lost from the closing stores. This level of transfer may not be indicative of ***all*** future closures but if it is, it will mitigate much of the profit lost from store closures going forward.

Lease Renewals

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

28 store renewals 2018/19 £m	**Before renewal**	**After renewal**	
Rental costs[21]	9.3	6.6	- 29%
Concession income	-	- 0.2	
Net rent	**9.3**	**6.4**	**- 31%**
Net rent/sales (VAT inc.)	9.4%	6.5%	
Rent-free incentive/capital contribution used for store upgrade[22]		£5m	
Average lease term[23]		5 years	
Average branch profitability (before central overheads)		26%	

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

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

[23] Average lease term shown is to the earlier of the lease end or break clause.

Future Lease Renewals

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

37 store renewals 2019/20 £m (e)	**Before renewal**	**After renewal**	
Rental costs [24]	13.8	10.1	- 27%
Concession income	-	- 0.5	
Net rent	**13.8**	**9.6**	**- 30%**
Net rent/sales (VAT inc.)	9.9%	6.9%	
Rent-free incentive / capital contribution used for store upgrade[25]		£4.5m	
Average lease term[23]		4.5 years	
Average branch profitability (before central overheads)		26%	

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

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

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

Concessions

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

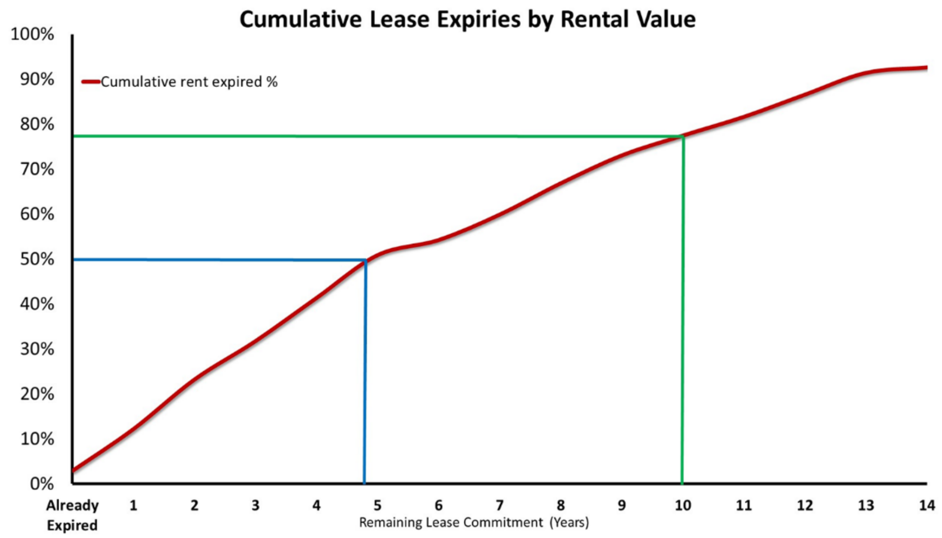
[24] Rental costs include the release of any capital contributions or rent-free incentives, over the term of the lease, which will not be used to refit the stores being renewed. Excluding the release of surplus capital contributions rent is forecast to decline by -25% in 2019/20.

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

PORTFOLIO PROFITABILITY AND LONG-TERM LEASE COMMITMENTS

Lease Commitment Profile

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



Portfolio Profitability

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

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

January 2019

Branch profitability	% of turnover
>20%	59%
>15%	81%
>10%	93%
>5%	97%
>0%	98%

January 2020 (e)

Branch profitability	% of turnover
>20%	51%
>15%	73%
>10%	89%
>5%	96%
>0%	98%

MANAGING RETAIL COSTS

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

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

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

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

The work done in the branches to process Online collections, returns and orders is now having a meaningful impact on our ability to manage our Retail wage costs down in line with sales. In the past the minimum crews required to open a shop represented a considerable fixed cost for the Retail business; if sales declined the numbers required at the quietest times of the day were not able to fall. In today's world some of the hours not needed in Retail are now required for Online work and so make good use of surplus Retail hours at the times of day our Retail sales are lowest. Online work now accounts for 12% of the work done in stores, in the quietest hour of the day (09.30-10.30) Online work accounts for around 15% of store wages.

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

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

DEVELOPING OUR STORES AS PART OF OUR ONLINE PLATFORM

2018 Projects

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

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

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

2019 Priority – Improved Returns Processing

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

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

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

NEXT ONLINE

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

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

SALES, PROFIT AND CUSTOMERS

Sales and Profit Summary

Full price sales grew by +14.8%, with total sales growth (including markdown[26]) of +14.7%. Net margin was 18.4%.

£m	Jan 2019	Jan 2018[27]	
Total sales	1,918.8	1,672.4	+ 14.7%
Operating profit	352.6	309.8	+ 13.8%
Net margin	**18.4%**	**18.5%**	

Sales by Division

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

Full price sales growth	£m	% var	H1[28]	H2
NEXT Brand UK	75	+8.3%	+10.7%	+6.3%
LABEL UK[28]	80	+28.8%	+26.7%	+30.5%
Total UK	***155***	***+13.1%***	***+14.4%***	***+12.0%***
Overseas	64	+22.1%	+22.0%	+22.1%
Total full price sales	**219**	**+14.8%**	**+16.0%**	**+13.8%**

[26] Markdown sales were up +13.8%; this includes Clearance offers and all Sale events up to the year end date.
[27] Jan 2018 total sales, operating profit and net margin have been restated to separately report the Finance business, refer to Appendix 1.
[28] Our Home Branded business continues to grow and is becoming a meaningful part of our LABEL business. As a result, some longstanding third-party Brands sold in our Home division, historically reported within NEXT, have been reclassified from NEXT Brand UK to LABEL UK. In the year to January 2018, this increased LABEL UK full price sales and reduced NEXT Brand UK by £4m.

Profit by Division

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

	Profit £m	Increase £m[29]	Net margin %
NEXT Brand UK	227.9	18.6	20.0%
LABEL UK	66.2	18.0	16.0%
Overseas	58.5	6.2	16.1%
Total Online operating profit	**352.6**	**42.8**	**18.4%**

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

Margin Movement Analysis

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

Net margin on total sales to January 2018 – restated[29]		**18.5%**
Bought-in gross margin	Underlying NEXT bought-in gross margin has improved by +0.2%. An increase in the participation of third-party branded sales, which have a lower bought-in gross margin, reduced margin by -1.4%.	**- 1.2%**
Markdown	Surplus stock for Sale was down -0.5% but markdown sales were up +3.8%. The combination of improved clearance rates and a higher participation of full price sales increased margin by +1.0%.	**+1.0%**
Warehousing & distribution	Growth in Overseas sales, which have a higher cost of distribution, eroded margin by -0.3%. Reduced delivery income from next**unlimited** has reduced margin by a further -0.3%. Other operational costs have reduced margin by -0.4%.	**- 1.0%**
Catalogues & photography	Production of fewer catalogues has increased margin by +1.1%. Photography savings have increased margin by +0.2%.	**+1.3%**
Marketing & systems	Investment in both marketing and systems meant costs have grown slightly faster than sales.	**- 0.2%**
Net margin on total sales to January 2019		**18.4%**

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

[29] Operating profit and net margin for the prior year have been reclassified, refer to Appendix 1.

Customer Base

Average active customers[30] increased by +8% to 5.3 million, driven by the growth in Overseas and UK cash customers (those who do not use our next**pay** credit account when ordering). UK credit customers increased by +1%. The table below sets out the growth in the respective parts of our customer base.

Average active customers (m)	Jan 2019	Jan 2018	
UK Credit	2.52	2.49	+1%
UK Cash	1.66	1.50	+11%
Total UK	**4.18**	**3.99**	**+5%**
Overseas Cash	1.15	0.94	+22%
Total	**5.33**	**4.93**	**+8%**

FOCUS ON MARKETING AND SYSTEMS

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

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

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

Continued Improvement of our Website

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

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

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

Digital Advertising

During the year we dropped some of our more traditional marketing, such as direct mail and recommend-a-friend, and invested the money in digital marketing. The returns achieved on digital marketing have been higher than expected and particularly strong overseas, where we have struggled to make a return in the past. We plan to increase expenditure on digital marketing by at least 28% in the year ahead.

THE CONTINUED DEVELOPMENT OF LABEL

Sales Performance

LABEL has had an excellent year with full price sales up **+29%.** Growth has been driven by:

- Increasing sales with our existing partner brands, where we have successfully increased our breadth of offer and improved stock availability.
- The introduction of new partner brands (such as All Saints and River Island).

LABEL Sales and Profit History

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

£m	**Jan 2015**	**Jan 2016**	**Jan 2017**	**Jan 2018**[31]	**Jan 2019**	**Jan 2020 (e)**
Total sales	151	187	215	303	414	475
Operating profit	21	23	35	52	70	81
Net margin	**14%**	**12%**	**16%**	**17%**	**17%**	**17%**
Operating profit including all central overheads					66	76
Net margin including all central overheads					**16%**	**16%**

LABEL in the Year Ahead

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

We plan to continue extending our third-party offer with some important new clothing brands and an increased focus on new homeware and furniture brands. In the run up to Christmas last year, we significantly expanded our Beauty offer and we hope to develop this business further in the year ahead.

[31] Our Home branded business continues to grow and is becoming a meaningful part of our LABEL business. As a result, some longstanding third-party brands sold in our Home division, historically reported within NEXT, have been reclassified from NEXT Brand UK to LABEL UK. In the year to January 2018, this increased LABEL UK total sales and reduced NEXT Brand UK by £5m, £4.5m of which, was full price.

Commission and Wholesale

More than half of our third-party branded business is now sold on a commission basis[32]. Although we make lower net margins on the commission model, we encourage our brand partners to adopt it because we believe that it will generate higher sales growth. This belief is reinforced by our sales performance as demonstrated in the table below; the growth rate of commission brands is higher than the rate of those bought on a wholesale basis.

Full price sales £m	Jan 2019	Jan 2018	
Wholesale	172	138	+25%
Commission	**184**	**138**	**+33%**
LABEL full price sales	356	276	+29%

We plan to work with more of our brand partners on a commission basis in the year ahead, with some key brands changing over to commission.

Platform Plus

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

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

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

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

[32] Lipsy operates as an internal commission brand partner and its sales are included within commission brand sales.

DEVELOPMENT OF OUR OVERSEAS BUSINESS

Analysis of Online Overseas Sales

Online Overseas continues to trade well. Full price sales for the year were up +22%. Total sales (including markdown sales) were up + 23%.

Overseas sales are achieved through our own website nextdirect.com and via third-party websites. Growth by each channel is set out in the table below. Like-for-like sales from partners that traded in both years were up +57% and we ceased trading with three major partners during the last year (Tmall in China, 3Suisse and, temporarily, Jabong in India).

Full price sales £m	**Jan 2019**	**Jan 2018**	
nextdirect.com	320.8	259.3	+24%
Third Parties			
New[33]	0.7	-	-
Continuous	25.2	16.0	+57%
Discontinued	7.2	14.6	- 51%
Full price Overseas sales	**353.9**	**289.9**	**+22%**

Online Overseas Profit History and Outlook

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

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

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

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

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

[33] Where we are trading in a new country with an established partner, we have classified the sales as 'New'.

Developing our Overseas Business

The main drivers of overseas growth remain:

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

Increased Marketing

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

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

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

Breadth of Offer

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

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

Other Improvements to our Overseas Sites in the Year Ahead

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

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

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

NEXT FINANCE

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

NEXT FINANCE PROFIT AND LOSS

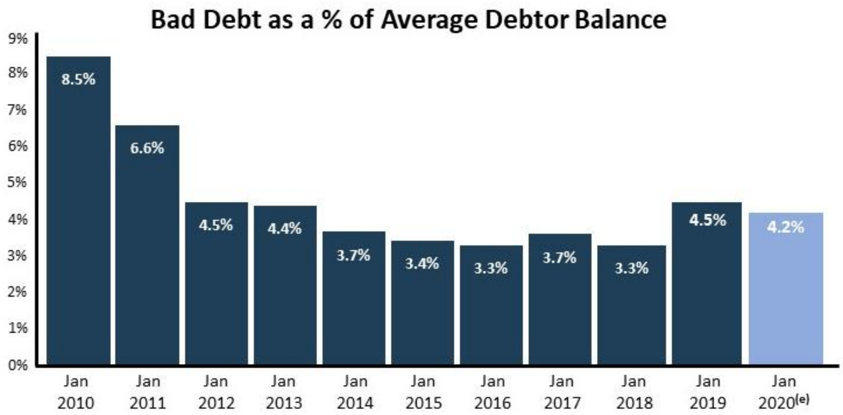
The performance of our Finance business is shown in the table below. A detailed explanation of each line of the P&L is provided in Appendix 2.

£m	Jan 2019	Jan 2018	
*Note of next**pay** credit sales*	*1,688.8*	*1,562.6*	*+8.1%*
1) Interest income	250.3	223.2	**+12.1%**
2) Bad debt charge	(52.1)	(37.4)[34]	+39.0%
3) Overheads	(36.9)	(33.3)	+10.6%
Profit before cost of funding	**161.3**	**152.5**	**+5.9%**
4) Cost of funding	(40.1)	(40.6)	- 1.1%
Net profit[35]	**121.2**	**111.9**	**+8.4%**
5) Average debtor balance	£1,140m	£1,014m	+12.5%
6) ROCE (after cost of funding)	10.6%	11.0%	

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

Bad Debt History

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



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

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[34] See Note 8 of the financial statements.

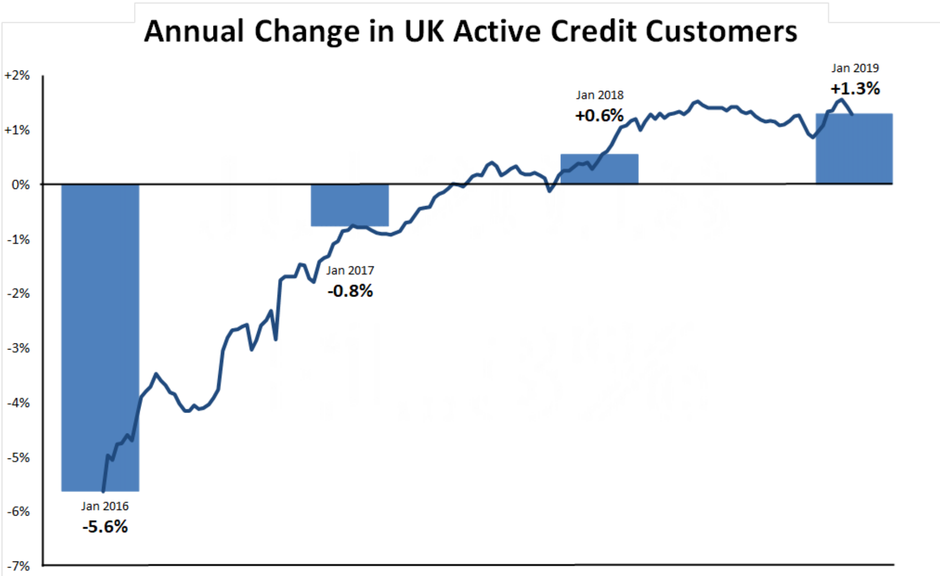
[35] In March 2018 we noted that the Finance business made c.£119m in the year to January 2018. As part of the reclassifications referred to in Appendix 1, this figure is now £112m.

IFRS 9

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

CREDIT CUSTOMER BASE

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



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

New Credit Products

During the year we introduced two new credit products:

- next**3step**, a credit account which allows customers to spread the cost of orders over 3 months in three equal payments, without incurring an interest charge. We are recruiting around 2,000 new customers per week onto this credit product, with 50% of all new credit customers choosing this option.

- next**pay** App, a new smartphone App which allows credit customers to pay for goods in our Retail stores in the same way as a physical payment card. On average, the App is downloaded 1,400 times per week, mainly by existing customers.

OTHER BUSINESS ACTIVITY

LIPSY

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

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

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

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

INTERNATIONAL RETAIL AND FRANCHISE STORES

Our franchise partners currently operate 199 stores in 32 countries and we have six owned stores in three countries (Czech Republic, Slovakia and Sweden). Revenue and profit are set out in the table below.

£m	Jan 2019	Jan 2018
Franchise income[37]	52.2	55.7
Own store sales	10.0	11.5
Total revenue	**62.2**	**67.2**
Operating profit	**6.2**	**7.7**

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

[36] January 2018 Lipsy sales have been restated to reclassify £8.2m of sales from lipsy.co.uk to NEXT Online.
[37] Franchise income is a combination of royalties received or commission added to the cost of goods sold to franchise partners.

NEXT SOURCING

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

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

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

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

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

NON-TRADING ACTIVITIES

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

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

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

PENSION SCHEME

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

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

COST INFLATION AND COST CONTROL

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

FORECAST FOR THE YEAR ENDING JANUARY 2020

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

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

CASH FLOW

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

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

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

In the year ahead, our capital expenditure is forecast to increase by £21m (page 41) and our Online debtor balance is expected to increase by £79m.

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

INTEREST AND TAXATION

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

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

CAPITAL EXPENDITURE

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

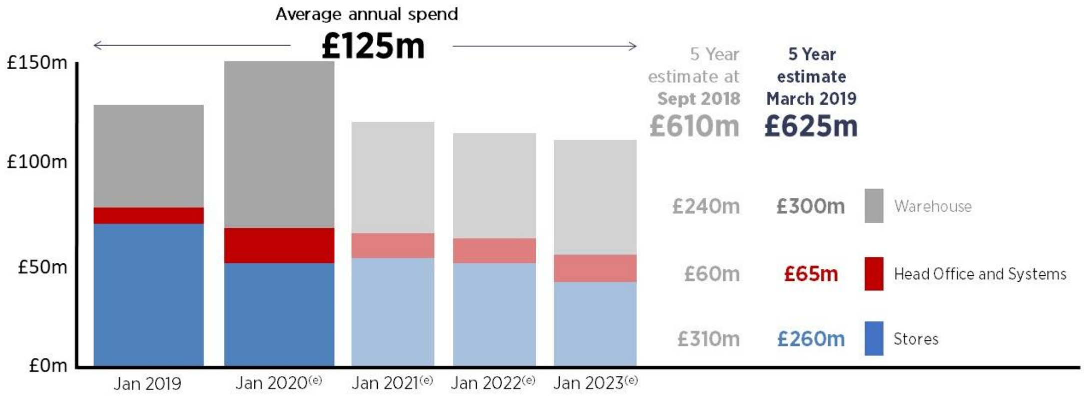
£m	Jan 2020 (e)	Jan 2019	Jan 2018
Retail space expansion	33	57	56
Retail cosmetic/maintenance capex	15	12	22
Total capex on stores	**48**	**69**	**78**
Warehouse	85	52	11
Head Office infrastructure	6	4	6
Systems	11	4	9
Total capital expenditure	**150**	**129**	**104**

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

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

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

Capital Expenditure by Category Outlook



ORDINARY DIVIDENDS

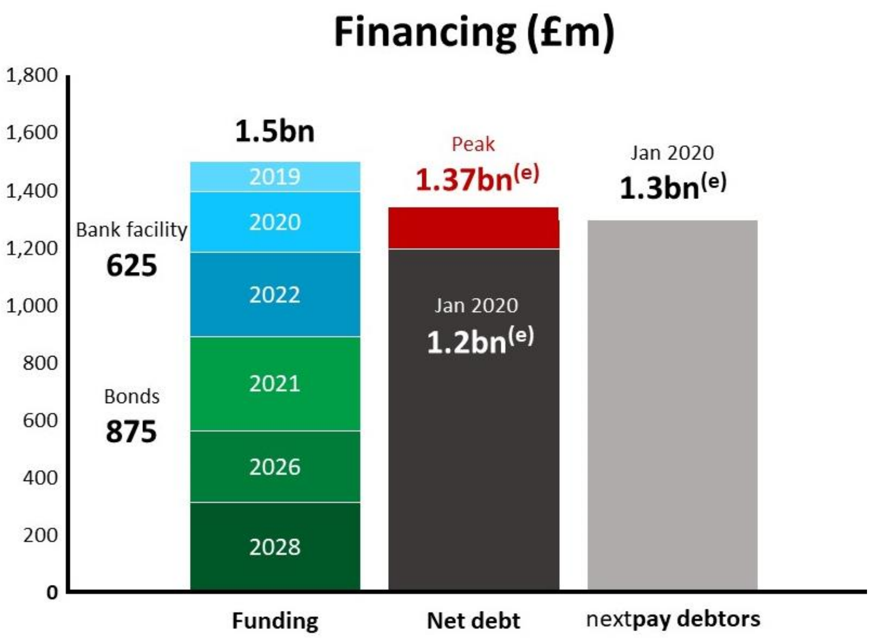
The Board has proposed a final ordinary dividend of 110p, to be paid on 1 August 2019 and taking the total ordinary dividends for the year to 165p, +4.4% on last year. This is subject to approval by shareholders at the Annual General Meeting to be held on 16 May 2019. Shares will trade ex-dividend from 4 July 2019 and the record date will be 5 July 2019.

NET DEBT AND FINANCING

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

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

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



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

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

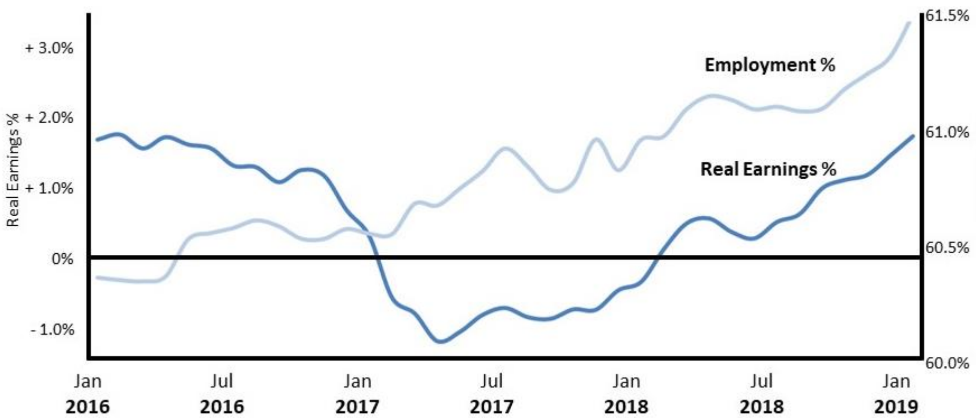
PART 5
OUTLOOK FOR SALES AND PROFIT

THE WIDER MARKET

Real Earnings and Employment

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

Real Earnings Growth and Employment %



Sources:
Employment %: ONS A01, Labour Market Statistics, (20th March 2019)
Real Earnings calculated as the difference between CPIH (ONS, 20th March) and Average Weekly Earnings growth (ONS, 19th March 2019)

Uncertainty over The UK's Future Relationship with the EU

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

NEXT's Preparations for Possible Departure from the EU

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

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

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

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

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

SALES AND PROFIT GUIDANCE FOR THE YEAR AHEAD

SALES OUTLOOK FOR THE YEAR AHEAD

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

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

PROFIT OUTLOOK FOR THE YEAR AHEAD

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

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

Impact of Structural Shift on Profits in 2018/19

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

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

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

Estimated Impact of Structural Shift on Profits in 2019/20

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

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

OUTLOOK FOR PROFITS

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

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

ACTION PLAN FOR THE YEAR AHEAD

This has been a long document and looks further into the future than usual. The challenges facing the business are complex but the actions that we are required to take remain simple. Our priorities for the year ahead remain focussed on the following tasks:

- Delivering great product ranges – the most important task of all!
- Continued development of the operational capabilities of our distribution Platform – warehousing, distribution and stores. The aim is to optimise the availability of our stock, breadth of offer, quality of service and cost efficiency.
- Develop our third-party business through enhancing the range of products we offer and the quality of service we provide to our partner brands.
- Continue to improve and invest in the functionality of our website, marketing, systems and mobile applications.
- Maximise the opportunity for profitable growth overseas.
- Manage costs across the Group, with particular focus on managing Retail costs down with falling like-for-like sales, whilst not allowing cost savings to undermine the quality of our products or services.
- Maintain excellent financial discipline to ensure all parts of our business deliver sustainable margins and healthy returns on capital.

FIRST QUARTER TRADING UPDATE

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

Lord Wolfson of Aspley Guise
Chief Executive
21 March 2019

APPENDIX 1

Changes to the Presentation of Our Divisional Results

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

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

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

NEXT Finance and Online

In the past we have consolidated the Finance business into our Online business for reporting purposes. In order to give further clarity on the underlying performance of the Group, we are now separately reporting the Finance business. Finance revenue represents the interest charged to our customers on their credit account balances. Finance profit includes all associated costs, including administrative costs, financing and bad debt. The interest cost is calculated on the basis that the Group lends all funds to NEXT Finance and charges an interest rate equivalent to the Group's average cost of borrowing.

Lipsy.co.uk

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

NEW ACCOUNTING STANDARDS

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

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

APPENDIX 2

Finance Profit and Loss Explained

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

UNAUDITED CONSOLIDATED INCOME STATEMENT

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 Restated £m
Continuing operations		
Revenue	**3,917.1**	3,867.5
Credit account interest	**250.3**	223.2
Total revenue (including credit account interest)	**4,167.4**	4,090.7
Cost of sales	**(2,640.5)**	(2,668.6)
Impairment losses on customer and other receivables (Note 8)	**(52.7)**	(24.3)
Gross profit	**1,474.2**	1,397.8
Distribution costs	**(458.3)**	(399.7)
Administrative expenses (Note 8)	**(255.4)**	(238.1)
Other gains/(losses)	**1.4**	(1.1)
Trading profit	**761.9**	758.9
Share of results of associates and joint venture	**0.1**	1.0
Operating profit	**762.0**	759.9
Finance income	**0.4**	1.3
Finance costs	**(39.5)**	(35.1)
Profit before taxation	**722.9**	726.1
Taxation	**(132.5)**	(134.3)
Profit for the year attributable to equity holders of the Parent Company	**590.4**	591.8

Earnings per share (Note 4)		
Basic	**435.3p**	416.7p
Diluted	**433.0p**	415.7p

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Profit for the year	**590.4**	591.8
Other comprehensive income and expenses:		
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit pension scheme	**18.6**	43.4
Tax relating to items which will not be reclassified	**(3.2)**	(7.4)
Subtotal items that will not be reclassified	**15.4**	36.0
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(5.3)**	7.8
Foreign currency cash flow hedges:		
- fair value movements	**73.2**	(79.8)
- reclassified to the Income Statement	**(2.6)**	(12.3)
- recognised in inventories	**(18.4)**	8.8
Cost of hedging:		
- fair value movements	**0.5**	-
- reclassified to the Income Statement	-	-
- recognised in inventories	-	-
Tax relating to items which may be reclassified	**(9.0)**	14.2
Subtotal items that may be reclassified	**38.4**	(61.3)
Other comprehensive income /(expense) for the year	**53.8**	(25.3)
Total comprehensive income for the year	**644.2**	566.5

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	26 January 2019 £m	27 January 2018 Restated £m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**564.9**	558.9
Intangible assets		**42.6**	42.9
Associates, joint venture and other investment		**5.1**	2.1
Defined benefit pension asset	6	**125.0**	106.2
Other financial assets	7	**41.5**	48.1
Deferred tax assets		**-**	5.8
		779.1	764.0
Current assets			
Inventories		**502.8**	466.7
Customer and other receivables	8	**1,339.8**	1,248.2
Right of return asset		**23.4**	23.4
Other financial assets	7	**9.9**	5.7
Cash and short term deposits		**156.3**	53.5
		2,032.2	1,797.5
Total assets		**2,811.3**	2,561.5
Current liabilities			
Bank loans and overdrafts		**(377.3)**	(180.0)
Trade payables and other liabilities	9	**(640.7)**	(580.2)
Other financial liabilities	7	**(9.4)**	(59.3)
Current tax liabilities		**(85.1)**	(95.3)
		(1,112.5)	(914.8)
Non-current liabilities			
Corporate bonds	10	**(905.2)**	(908.5)
Provisions		**(10.3)**	(10.4)
Other financial liabilities	7	**(9.2)**	(12.4)
Other liabilities	11	**(217.5)**	(232.8)
Deferred tax liabilities		**(2.8)**	-
		(1,145.0)	(1,164.1)
Total liabilities		**(2,257.5)**	(2,078.9)
NET ASSETS		**553.8**	482.6
TOTAL EQUITY		**553.8**	482.6

The January 2018 Balance Sheet has been restated to reflect the impact of IFRS 15 "*Revenue from contracts with customers*" (Refer to Note 1).

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Foreign currency translation £m	Cost of hedging reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 28 January 2017	**14.7**	**0.9**	**15.2**	**(215.4)**	**26.2**	**(4.5)**	-	**(1,443.8)**	**2,117.2**	**510.5**
Profit for the year	-	-	-	-	-	-	-	-	591.8	**591.8**
Other comprehensive (expense)/income for the year	-	-	-	-	(69.1)	7.8	-	-	36.0	**(25.3)**
Total comprehensive (expense)/ income for the year	-	-	-	-	(69.1)	7.8	-	-	627.8	**566.5**
Share buybacks and commitments	(0.2)	-	0.2	-	-	-	-	-	(106.1)	**(106.1)**
ESOT share purchases and commitments	-	-	-	(37.0)	-	-	-	-	-	**(37.0)**
Shares issued by ESOT	-	-	-	20.8	-	-	-	-	(10.5)	**10.3**
Share option charge	-	-	-	-	-	-	-	-	14.1	**14.1**
Acquisition of minority interest in subsidiary	-	-	-	-	-	-	-	-	(0.4)	**(0.4)**
Tax recognised directly in equity	-	-	-	-	-	-	-	-	4.4	**4.4**
Equity dividends (Note 5)	-	-	-	-	-	-	-	-	(479.7)	**(479.7)**
At 27 January 2018	**14.5**	**0.9**	**15.4**	**(231.6)**	**(42.9)**	**3.3**	-	**(1,443.8)**	**2,166.8**	**482.6**
Profit for the year	-	-	-	-	-	-	-	-	590.4	**590.4**
Other comprehensive (expense)/income for the year	-	-	-	-	43.3	(5.3)	0.4	-	15.4	**53.8**
Total comprehensive income/(expense) for the year	-	-	-	-	43.3	(5.3)	0.4	-	605.8	**644.2**
Share buybacks and commitments	(0.6)	-	0.6	-	-	-	-	-	(324.2)	**(324.2)**
ESOT share purchases and commitments	-	-	-	(61.9)	-	-	-	-	-	**(61.9)**
Shares issued by ESOT	-	-	-	21.9	-	-	-	-	(6.6)	**15.3**
Share option charge	-	-	-	-	-	-	-	-	13.8	**13.8**
Tax recognised directly in equity	-	-	-	-	-	-	-	-	(0.3)	**(0.3)**
Equity dividends (Note 5)	-	-	-	-	-	-	-	-	(215.7)	**(215.7)**
At 26 January 2019	**13.9**	**0.9**	**16.0**	**(271.6)**	**0.4**	**(2.0)**	**0.4**	**(1,443.8)**	**2,239.6**	**553.8**

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Cash flows from operating activities		
Operating profit	**762.0**	759.9
Depreciation, impairment and loss on disposal of property, plant and equipment	**122.3**	122.6
Amortisation of intangible assets	**0.3**	0.4
Share option charge	**13.8**	14.1
Exchange movement	**(4.3)**	6.1
Increase in inventories and right of return asset	**(36.1)**	(39.0)
Increase in customer and other receivables	**(96.2)**	(126.0)
Increase/(decrease) in trade and other payables	**36.9**	(16.9)
Net pension contributions less income statement charge	**(0.2)**	-
Cash generated from operations	**798.5**	721.2
Corporation taxes paid	**(144.2)**	(106.0)
Net cash from operating activities	**654.3**	615.2
Cash flows from investing activities		
Additions to property, plant and equipment	**(128.6)**	(104.2)
Movement in capital accruals	**5.4**	(8.6)
Payments to acquire property, plant and equipment	**(123.2)**	(112.8)
Proceeds from sale of property, plant and equipment	**0.3**	1.0
Purchase of shares in associate	**(3.0)**	-
Outflow on the acquisition of minority interest in a subsidiary	-	(0.4)
Net cash from investing activities	**(125.9)**	(112.2)
Cash flows from financing activities		
Repurchase of own shares	**(325.0)**	(105.1)
Purchase of shares by ESOT	**(61.9)**	(37.0)
Disposal of shares by ESOT	**15.8**	11.3
Proceeds from unsecured bank loans	**120.0**	135.0
Interest paid	**(37.3)**	(33.4)
Interest received	**0.2**	1.3
Dividends paid (Note 5)	**(215.7)**	(479.7)
Net cash from financing activities	**(503.9)**	(507.6)
Net increase / (decrease) in cash and cash equivalents	**24.5**	(4.6)
Opening cash and cash equivalents	**8.5**	14.4
Effect of exchange rate fluctuations on cash held	**1.0**	(1.3)
Closing cash and cash equivalents (Note 13)	**34.0**	8.5

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The results for the financial year are for the 52 weeks to 26 January 2019 (last year 52 weeks to 27 January 2018).

The condensed consolidated financial statements for the year ended 26 January 2019 have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and in accordance with the accounting policies set out in the NEXT plc Annual Report and Accounts for the year ended 27 January 2018.

The condensed consolidated financial statements are unaudited and do not constitute statutory accounts of the Company within the meaning of Section 434(3) of the Companies Act 2006. Statutory accounts for the year to 27 January 2018 have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or (3) of the Companies Act 2006.

New accounting standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the condensed consolidated financial statements are the same as those set out in the Group's annual financial statements for the 52 weeks ended 27 January 2018, except for the adoption of new standards effective as of 28 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

The Group applies, for the first time, IFRS 15 "*Revenue from contracts with customers*" and IFRS 9 "*Financial instruments*". The nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the condensed consolidated financial statements of the Group.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 supersedes IAS 11 "*Construction contracts*", IAS 8 "*Revenue*" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the fully retrospective method of adoption, thereby restating comparatives, and did not apply any optional practical expedients. The key considerations along with the impact of adopting IFRS 15 are described below. **There was no impact on profit after tax or retained earnings on adoption of IFRS 15.**

a) <u>Sale of goods</u>
The Group's contracts with customers for the sale of product generally include one performance obligation. The Group has concluded that revenue from the sale of product should be recognised at the point in time when control of the asset is transferred to the customer i.e. on the delivery of the product. This does not represent a change to the Group's accounting policy and therefore, **the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.**

1. Basis of preparation (continued)

b) Variable consideration

Product sales provide customers with a right of return within a specified period and are therefore deemed to be variable under IFRS 15.

Under IFRS 15, the Group uses the expected value method to estimate the value of goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. Under the old standard, IAS 8, expected returns were estimated using a similar approach and therefore **no adjustment to the value of variable consideration was required on transition to IFRS 15**.

In terms of presentation, prior to the adoption of IFRS 15, the amount of revenue relating to expected returns was deferred and recognised in the Balance Sheet within *customer receivables* (for purchases on credit) or *current trade payables and other liabilities*, with a corresponding adjustment to *cost of sales*. The initial carrying amount of goods expected to be returned was included within *inventories*.

Under IFRS 15 the Group presents a separate *right of return asset* on the face of the Balance Sheet, which represents an asset for the right to recover product from the customer. This was reclassified from *inventories*. Presented as a separate component of *trade payables and other liabilities* is the refund liability due to customers on the return of their goods (refer to Note 9). The refund liability relating to sales through the next**pay** credit offer continues to be presented as part of *customer receivables* (refer to Note 8) as it is settled net.

In summary the adjustments to the Balance Sheet were as follows:

	27 Jan 2018 As reported £m	Adjustments £m	**27 Jan 2018 Restated £m**
Non-current assets	764.0	-	**764.0**
Current assets			
Inventories	490.1	(23.4)	**466.7**
Customer and other receivables	1,248.2	-	**1,248.2**
Right of return asset	-	23.4	**23.4**
Other current assets	59.2	-	**59.2**
Total current assets	1,797.5	-	**1,797.5**
Current liabilities	(914.8)	-	**(914.8)**
Non-current liabilities	(1,164.1)	-	**(1,164.1)**
Net assets	482.6	-	**482.6**

c) Principal versus agent considerations

Under IFRS 15 certain income streams were reclassified to reflect the nature of the control of the goods before they are transferred to customers. In the majority of cases the Group was considered the principal in the transaction under IFRS 15 and recognised the full sale within revenue, rather than netted off costs. **The resulting adjustments increased revenue by £40.3m (2018: £35.2m) with £nil impact on profit (2018: £nil)**. Refer to Note 2 for further details on the impact of these adjustments.

1. Basis of preparation (continued)

d) Presentation and disclosure requirements

As required for the financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 3 for disclosure on disaggregated revenue.

IFRS 9 "*Financial instruments*"

IFRS 9 replaces IAS 39 "*Financial instruments: recognition and measurement*" for annual periods beginning on or after 1 January 2018, which covers the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group applied IFRS 9 retrospectively, except for the hedge accounting requirements which were applied prospectively. **The impact of the application of IFRS 9 was not material to the net assets or profit for the period or prior period**. Prior year balances have not been restated for IFRS 9. Revised accounting policies for IFRS 9 are detailed below.

a) Classification and measurement

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and liabilities as at 28 January 2018. There were no changes to the carrying amounts of these assets and liabilities on transition to IFRS 9.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39 and IFRS 9 £m
Derivatives not designated as hedging instruments	Fair value through profit or loss	Fair value through profit or loss	2.4
Derivatives designated as hedging instruments	Fair value – hedging instrument	Fair value – hedging instrument	51.4
Customer and other receivables*	Loans and receivables	Amortised cost	1,153.0
Cash and short term deposits	Loans and receivables	Amortised cost	53.5
Non-listed equity instruments	Available-for-sale investments	Fair value through OCI	1.0
Financial liabilities			
Derivatives not designated as hedging instruments	Fair value through profit or loss	Fair value through profit or loss	(4.2)
Derivatives designated as hedging instruments	Fair value – hedging instrument	Fair value – hedging instrument	(67.5)
Interest-bearing loans and borrowings:			
Corporate bonds	Loans and borrowings	Amortised cost – designated in hedge relationships	(908.5)
Bank loans and overdrafts	Loans and borrowings	Amortised cost	(180.0)
Trade and other payables at amortised cost**	Other financial liabilities	Amortised cost	(395.2)

*Prepayments of £94.2m and other debtors of £1.0m do not meet the definition of a financial instrument.

** Other taxation and social security payables of £62.4m, deferred income of £78.1m, property lease incentives of £250.7m, share-based payment liabilities of £1.5m and other creditors of £25.1m do not meet the definition of a financial instrument.

1. Basis of preparation (continued)

b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. **The new methodology adopted by NEXT has not had a material impact on the level of provision held for impairment losses.** As a retailer, NEXT is not required to provide against undrawn credit under the ECL model as the Group is selling product (is a "Merchant of Goods") rather than a provider of financial instruments.

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

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

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

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

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

Impairment charges in respect of customer receivables are recognised in the Income Statement within cost of sales.

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

1. Basis of preparation (continued)

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

The key assumptions in the ECL calculation are:

PD: The "Probability of Default" is an estimate of the likelihood of default over the expected lifetime of the debt. NEXT has assessed the expected lifetime of customer receivables and other trade receivables to be no more than 36 months, based on historical payment practices. The debt is segmented by arrears stage, Experian's Consumer Indebtedness Index (a measure of consumers' affordability) and expected time of default.

EAD: The "Exposure at Default" is an estimate of the exposure at that future default date, taking into account expected changes in the exposure after the reporting date, i.e. repayments of principal and interest, whether scheduled by the contract or otherwise and accrued interest from missed payments. This is stratified by arrears stage, Experian's Consumer Indebtedness Index and expected time of default.

LGD: The "Loss Given Default" is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that NEXT would expect to receive, discounted at the original 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 Group uses probability weighted economic scenarios, in order to evaluate a range of possible outcomes as is required by IFRS 9, that are integrated into the model. The inputs and models used for the ECLs may not always capture all characteristics of the market at the Balance Sheet date. To reflect this, qualitative adjustments or overlays are made, based on external data, historical performance and future expected performance.

c) <u>Hedge accounting</u>

The Group applied the IFRS 9 hedge accounting model prospectively. IFRS 9 requires that hedge accounting relationships are aligned with the risk management objectives and strategy of the Group and applies a more qualitative and forward-looking approach to assessing hedge effectiveness.

At the date of initial application of IFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedge relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationship and, as such, the adoption of the hedge accounting requirements of IFRS 9 has not had significant impact on the Group's financial statements.

Prior to 28 January 2018, the Group classified foreign currency options as held-for-trading derivatives and accounted for them as Fair Value through Profit or Loss. The fair value of options are divided into two portions:

- the intrinsic value - which is determined by the difference between the strike price and the current market price of the underlying; and
- the time value - which is the remaining value of the option which reflects the volatility of the price of the underlying and the time remaining to maturity.

Following the adoption of IFRS 9, the Group is now designating the intrinsic value of foreign currency options as hedging instruments. The intrinsic value is determined with reference to the relevant spot market exchange rate. Changes in the time value of the options that relate to the hedged item are deferred in the cost of hedging reserve and recognised against the related hedge transaction when it occurs.

1. Basis of preparation (continued)

New accounting standards to be adopted by the Group in 2019/2020

IFRS 16 *"Leases"*

IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. For NEXT the first reported accounting period under IFRS 16 will be the 2019/20 financial year.

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

The Group has a large portfolio of leased properties and other equipment, including stores and warehouses. The minimum lease commitment on these at the financial year end is £1,678.7m (to lease end this is £1,826.1m).

The adoption of IFRS 16 has no effect on how the business is run, nor on the overall cash flows for the Group.

a) <u>Transition</u>

As previously disclosed, the Group has adopted the fully retrospective transition approach, restating prior year comparatives. The Group will apply the practical expedient to grandfather the definition of a lease on transition and apply the recognition exemption for both short term and low value assets.

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

At January 2018 the weighted average discount rate, based on incremental borrowing rate, across the Group lease portfolio was 5.0%. The discount rate for each lease is dependent on lease start date and term.

b) <u>Impact to financial statements</u>

Restating the 2018/19 financial statements upon transition, NEXT will recognise (after including adjustments for working capital which exist under IAS 17) an opening right of use asset in the region of £1.0bn and a lease liability in the region of £1.4bn. The deferred tax asset would increase by £0.1bn in the restated financial statements. The retained earnings in the subsidiaries of the Group on transition will reduce by circa £0.2bn. **This adjustment will not cause any hindrance to the distribution of dividends to shareholders.**

The most significant lease liabilities relate to property.

The opening right of use asset is lower than the opening lease liability as it includes lease incentives received and reflects the higher depreciation of the right of use asset compared to the reduction on the lease liability and accrued interest over the same period of time.

The Income Statement will reflect an increase to profit before taxation for the year ending January 2019 of between £14m and £24m. Operating profit is expected to increase by circa £90m as the new depreciation charge will be lower than the current rental payments. Interest charge is expected to increase by circa £70m with the addition of higher finance costs. We do not expect the adoption of IFRS 16 to have a material impact on the Group's effective tax rate.

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

Going concern

The directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

2. Segmental analysis

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

The Property Management segment holds properties and property leases which are sublet to other segments and external parties. The NEXT International Retail segment comprises franchise and wholly owned stores overseas. International online sales are included in the NEXT Online segment.

Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. "Total sales" represents the full customer sales value of commission based sales and interest income, excluding VAT. Under IFRS 15, total sales have also been adjusted for customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances.

During the year the CODM altered the internal reporting of Group sales and profit to separately disclose the NEXT Finance business unit. This reporting better reflects the nature of the different business models of the Group. NEXT Finance provides credit for customers to purchase product. The segment revenue represents the interest charged to customers on their credit account balances. The segment profit includes all associated costs, including administrative costs, financing and bad debt. The interest cost is calculated on the basis that the Group lends all funds to NEXT Finance and charges an interest rate equivalent to the Group's cost of borrowing.

In January 2018 the Lipsy.co.uk website was closed and all Lipsy online sales are now made through the next.co.uk website and reported in NEXT Online. 2018 segment total sales and profit have been restated by £8.2m and £1.1m respectively to show the prior year Lipsy.co.uk sales in NEXT Online for better comparability. Prior year segment reporting has also been restated accordingly to reflect this and the retrospective application of IFRS 15 (refer to Note 1).

Segment sales and revenue

52 weeks to 26 January 2019	**Total sales excluding VAT £m**	**Commission sales adjustment £m**	**IFRS 15 adjustments £m**	**External revenue £m**	**Internal revenue £m**	**Total segment revenue £m**
NEXT Retail	**1,955.1**	**(1.2)**	**2.0**	**1,955.9**	**4.6**	**1,960.5**
NEXT Online	**1,918.8**	**(92.5)**	**38.3**	**1,864.6**	-	**1,864.6**
NEXT Finance	**250.3**	-	-	**250.3**	-	**250.3**
NEXT International Retail	**62.2**	-	-	**62.2**	-	**62.2**
NEXT Sourcing	**6.9**	-	-	**6.9**	**543.2**	**550.1**
	4,193.3	**(93.7)**	**40.3**	**4,139.9**	**547.8**	**4,687.7**
Lipsy	**15.1**	**(0.1)**	-	**15.0**	**80.4**	**95.4**
Property Management	**12.5**	-	-	**12.5**	**202.9**	**215.4**
Total segment sales/revenues	**4,220.9**	**(93.8)**	**40.3**	**4,167.4**	**831.1**	**4,998.5**
Eliminations	-	-	-	-	**(831.1)**	**(831.1)**
Total	**4,220.9**	**(93.8)**	**40.3**	**4,167.4**	-	**4,167.4**

2. Segmental analysis (continued)

Segment sales and revenue

52 weeks to 27 January 2018 (Restated)	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	2,123.0	(1.0)	2.0	2,124.0	5.5	2,129.5
NEXT Online	1,672.4	(59.8)	33.2	1,645.8	-	1,645.8
NEXT Finance	223.2	-	-	223.2	-	223.2
NEXT International Retail	67.2	-	-	67.2	-	67.2
NEXT Sourcing	6.6	-	-	6.6	547.8	554.4
	4,092.4	(60.8)	35.2	4,066.8	553.3	4,620.1
Lipsy	16.0	(1.2)	-	14.8	62.1	76.9
Property Management	9.1	-	-	9.1	206.2	215.3
Total segment sales/revenues	4,117.5	(62.0)	35.2	4,090.7	821.6	4,912.3
Eliminations	-	-	-	-	(821.6)	(821.6)
Total	4,117.5	(62.0)	35.2	4,090.7	-	4,090.7

2. Segmental analysis (continued)

Segment profit	**52 weeks to 26 January 2019 £m**	52 weeks to 27 January 2018 Restated £m	52 weeks to 27 January 2018 As reported £m
NEXT Retail	**212.3**	268.7	268.7
NEXT Online	**352.6**	309.8	461.2
NEXT Finance	**121.2**	111.9	-
NEXT International Retail	**6.2**	7.7	7.7
NEXT Sourcing	**29.6**	33.0	33.0
	721.9	731.1	770.6
Lipsy	**11.0**	4.9	6.0
Property Management	**6.7**	3.6	3.6
Total segment profit	**739.6**	739.6	780.2
Central costs and other	**(5.4)**	(6.1)	(6.1)
Recharge of interest to NEXT Finance	**40.1**	40.6	-
Share option charge	**(13.8)**	(14.1)	(14.1)
Other gains/(losses)	**1.4**	(1.1)	(1.1)
Trading profit	**761.9**	758.9	758.9
Share of results of associates and joint venture	**0.1**	1.0	1.0
Finance income	**0.4**	1.3	1.3
Finance costs	**(39.5)**	(35.1)	(35.1)
Profit before tax	**722.9**	726.1	726.1

3. Revenue

The Group's disaggregated revenue recognised under contracts with customers relates to the following categories and operating segments:

52 weeks to 26 January 2019

	Sale of goods £m	**Credit account interest £m**	**Royalties £m**	**Rental income £m**	**Total £m**
NEXT Retail	**1,955.9**	**-**	**-**	**-**	**1,955.9**
NEXT Online	**1,864.6**	**-**	**-**	**-**	**1,864.6**
NEXT Finance	**-**	**250.3**	**-**	**-**	**250.3**
NEXT International Retail	**56.7**	**-**	**5.5**	**-**	**62.2**
NEXT Sourcing	**6.9**	**-**	**-**	**-**	**6.9**
Lipsy	**12.9**	**-**	**2.1**	**-**	**15.0**
Property Management	**-**	**-**	**-**	**12.5**	**12.5**
Total	**3,897.0**	**250.3**	**7.6**	**12.5**	**4,167.4**

52 weeks to 27 January 2018 (Restated)

	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Retail	2,124.0	-	-	-	2,124.0
NEXT Online	1,645.8	-	-	-	1,645.8
NEXT Finance	-	223.2	-	-	223.2
NEXT International Retail	59.6	-	7.6	-	67.2
NEXT Sourcing	6.6	-	-	-	6.6
Lipsy	13.2	-	1.6	-	14.8
Property Management	-	-	-	9.1	9.1
Total	3,849.2	223.2	9.2	9.1	4,090.7

4. Earnings Per Share

	2019	2018
Basic Earnings Per Share	**435.3p**	416.7p

Basic Earnings Per Share is based on the profit for the year attributable to the equity holders of the Parent Company divided by the net of the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOT during the period.

	2019	2018
Diluted Earnings Per Share	**433.0p**	415.7p

4. Earnings Per Share (continued)

Diluted Earnings Per Share is calculated by adjusting the weighted average number of shares used for the calculation of basic Earnings Per Share as increased by the dilutive effect of potential ordinary shares. Dilutive shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period. Their dilutive effect is calculated on the basis of the equivalent number of nil cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. There were 3,508,782 non-dilutive share options in the current year (2018: 4,779,181). The table below shows the key variables used in the Earnings Per Share calculations:

	2019	2018
Profit after tax attributable to equity holders of the parent company (£m)	**590.4**	591.8
Weighted average number of shares (millions):		
Weighted average shares in issue	**140.8**	146.7
Weighted average shares held by ESOT	**(5.2)**	(4.7)
Weighted average shares for basic EPS	**135.6**	142.0
Weighted average dilutive potential shares	**0.7**	0.4
Weighted average shares for diluted EPS	**136.3**	142.4

5. Dividends

Year to 26 January 2019

	Paid	**Pence per share**	**Cash flow statement £m**	**Statement of changes in equity £m**
Final ordinary dividend for the year to Jan 2018	1 Aug 2018	105p	141.9	141.9
Interim ordinary dividend for the year to Jan 2019	2 Jan 2019	55p	73.8	73.8
			215.7	**215.7**

Year to 27 January 2018

	Paid	**Pence per share**	**Cash flow statement £m**	**Statement of changes in equity £m**
Special interim dividend	2 May 2017	45p	64.3	64.3
Final ordinary dividend for the year to Jan 2017	1 Aug 2017	105p	149.3	149.3
Special interim dividend	1 Aug 2017	45p	64.0	64.0
Special interim dividend	1 Nov 2017	45p	63.8	63.8
Interim ordinary dividend for the year to Jan 2018	2 Jan 2018	53p	74.8	74.8
Special interim dividend	25 Jan 2018	45p	63.5	63.5
			479.7	**479.7**

6. Defined benefit pension

The principal pension scheme is the 2013 NEXT Group Pension Plan, which includes defined benefit and defined contribution sections.

The movement in the defined benefit pension surplus in the period is as follows:

	52 weeks to 26 January 2019 £m	52 weeks to 27 January 2018 £m
Surplus in schemes at the beginning of the period	**106.2**	62.9
Current service cost	**(8.2)**	(8.7)
Guaranteed Minimum Pension equalisation	**(0.4)**	-
Administration costs	**(1.9)**	(1.5)
Net interest	**2.8**	1.7
Employer contributions	**7.8**	8.4
Actuarial gains	**18.7**	43.4
Surplus in schemes at the end of the period	**125.0**	106.2

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

The main financial assumptions and actuarial valuations have been updated by independent qualified actuaries under IAS 19 "*Employee benefits*". The following financial assumptions have been used:

	52 weeks to 26 January 2019	52 weeks to 27 January 2018
Discount rate	**2.90%**	2.50%
Inflation – RPI	**3.15%**	3.20%
Inflation – CPI	**2.15%**	2.20%
Salary increases	**-**	-
Pension increases in payment		
- RPI with a maximum of 5%	**2.95%**	3.00%
- RPI with a maximum of 2.5% and discretionary increases	**2.05%**	1.95%

7. Other financial assets and liabilities

Other financial assets and other financial liabilities include the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks. All derivatives are categorised as Level 2 under the requirements of IFRS 13, as they are valued using techniques based significantly on observed market data.

8. Customer and other receivables

	26 January 2019 £m	27 January 2018 £m
Gross customer receivables	**1,417.2**	1,295.8
Less: refund liabilities	**(44.5)**	(40.2)
Net customer receivables	**1,372.7**	1,255.6
Less: allowance for expected credit losses (calculated under IFRS9)	**(165.5)**	-
Less: allowance for doubtful debts (calculated under IAS 39)	**-**	(138.7)
	1,207.2	1,116.9
Other trade receivables	**23.8**	21.7
Less: allowance for expected credit losses (calculated under IFRS9)	**(0.5)**	-
Less: allowance for doubtful debts (calculated under IAS 39)	**-**	(0.1)
	1,230.5	1,138.5

Presentation of the above, split by total receivables and allowances:

Net customer receivables	**1,372.7**	1,255.6
Other trade receivables	**23.8**	21.7
	1,396.5	1,277.3
Less: allowance for expected credit losses (calculated under IFRS 9)	**(166.0)**	-
Less: allowance for doubtful debts (calculated under IAS 39)	**-**	(138.8)
	1,230.5	1,138.5
Prepayments	**91.6**	94.2
Other debtors	**14.7**	13.4
Amounts due from associates and joint venture	**3.0**	2.1
	1,339.8	1,248.2

8. Customer and other receivables (continued)

	2019			2018
	Lifetime ECL	**Credit impaired**	**Total**	Incurred loss
Opening balance	**(85.7)**	**(53.1)**	**(138.8)**	(137.8)
Impairment	**(12.6)**	**(47.0)**	**(59.6)**	(28.5)
Amounts recovered	**1.1**	**5.8**	**6.9**	4.2
Charged to the Income Statement	**(11.5)**	**(41.2)**	**(52.7)**	(24.3)
Used during the year	**4.6**	**20.9**	**25.5**	23.3
Total movement	**(6.9)**	**(20.3)**	**(27.2)**	(1.0)
Closing balance	**(92.6)**	**(73.4)**	**(166.0)**	(138.8)

Impairment losses on customer and other receivables for the 52 weeks to 27 January 2018 includes the release of a £12m provision for potential exposures in relation to customer receivables. This element of provision was re-accrued into other creditors and charged to the Income Statement in administrative expenses, such that there was no overall impact on the profit for the year. The underlying charge for Impairment losses on customer and other receivables for the 52 weeks to 27 January 2018 was therefore £36m.

9. Trade payables and other liabilities (current)

	26 January 2019 **£m**	27 January 2018 £m
Trade payables	**218.8**	168.4
Refund liabilities	**6.2**	10.9
Other taxation and social security	**68.3**	62.4
Deferred revenue from the sale of gift cards	**75.4**	78.1
Property lease incentives	**34.7**	32.6
Share-based payment liability	**0.2**	0.8
Other creditors and accruals	**237.1**	227.0
	640.7	580.2

10. Corporate bonds

The table below shows the nominal and balance sheet values of the Group's outstanding corporate bonds.

	Nominal value		**Balance sheet value**	
	2019 **£m**	2018 £m	**2019** **£m**	2018 £m
Corporate bond 5.375% repayable Oct 2021	**325.0**	325.0	**327.5**	328.4
Corporate bond 4.375% repayable Oct 2026	**250.0**	250.0	**277.7**	280.1
Corporate bond 3.625% repayable May 2028	**300.0**	300.0	**300.0**	300.0
	875.0	875.0	**905.2**	908.5

The Group uses interest rate derivatives to manage part of the interest rate risk associated with its corporate bonds, whereby the carrying value of the relevant bonds is adjusted for changes in fair value attributable to the hedged risk. At January 2019, the fair value of the Group's corporate bonds was £930.3m (2018: £966.7m). The fair values are market values at the balance sheet date (IFRS 13 Level 1).

11. Other non-current liabilities

Other non-current liabilities relate primarily to the long term element of property lease incentives received which will be credited to the Income Statement more than one year from the Balance Sheet date.

12. Share buybacks

Movements in the Company's issued share capital during the year are shown in the table below:

	2019 Shares '000	**2019 Cost £m**	2018 Shares '000	2018 Cost £m
Shares in issue at start of year	**144,882**	**14.5**	147,057	14.7
Shares purchased for cancellation in the year	**(6,276)**	**(0.6)**	(2,175)	(0.2)
Shares in issue at end of year	**138,606**	**13.9**	144,882	14.5

The total cost of shares purchased for cancellation as shown in the Statement of Changes in Equity was £324.2m (2018: £106.1m).

13. Analysis of net debt

	January 2018 £m	Cash flow £m	Other non-cash changes Foreign exchange £m	Other non-cash changes Fair value changes £m	**January 2019 £m**
Cash and short term deposits	53.5				**156.3**
Overdrafts and short term borrowings	(45.0)				**(122.3)**
Cash and cash equivalents	8.5	24.5	1.0	-	**34.0**
Unsecured bank loans	(135.0)	(120.0)	-	-	**(255.0)**
Corporate bonds	(908.5)	-	-	3.3	**(905.2)**
Fair value hedges of corporate bonds	33.5	-	-	(3.1)	**30.4**
Total net debt	(1,001.5)	(95.5)	1.0	0.2	**(1,095.8)**

14. Final dividend and AGM

It is intended that the recommended final dividend of 110p per share will be paid on 1 August 2019 to shareholders registered on 5 July 2019, with shares trading ex-dividend from 4 July 2019. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The Annual General Meeting will be held at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester, LE19 1SW on Thursday 16 May 2019. The Annual Report and Accounts will be sent to shareholders on 12 April 2019 and copies will be available from the Company's registered office: Desford Road, Enderby, Leicester, LE19 4AT and on our corporate website at nextplc.co.uk .

This statement, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at nextplc.co.uk.

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

Certain statements which appear in a number of places throughout this announcement are "forward looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to those matters highlighted in the Chief Executive's review; failure by NEXT to predict accurately customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of NEXT's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; insufficient consumer interest in NEXT Online; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. These forward looking statements do not amount to any representation that they will be achieved as they involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.