# ANNUAL REPORT & ACCOUNTS

JANUARY 2023

NEXT

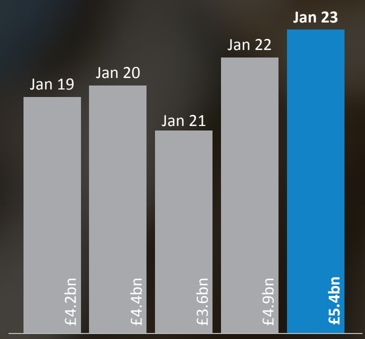
# CONTENTS

# FINANCIAL HIGHLIGHTS

## TOTAL GROUP SALES APM

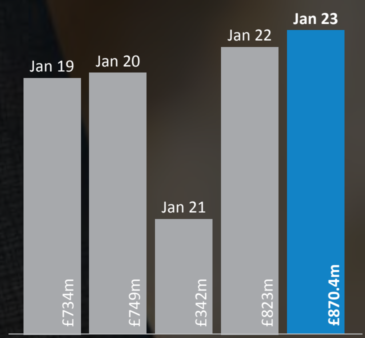
Underlying continuing business

**£5.4bn**



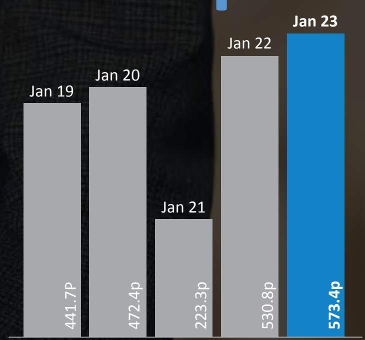

## NEXT PROFIT BEFORE TAX APM

**£870.4m**




## EARNINGS PER SHARE

**573.4p**




APM Alternative Performance Measure as defined in the Glossary on pages 245 to 248.

# STRATEGIC REPORT

# CHAIRMAN'S STATEMENT

It has been a good year for NEXT. We have embraced the various challenges and seized the opportunities that have arisen.

A detailed analysis of our performance in 2022/23 and our outlook for the year ahead are covered in the following pages. Looking back on the year, among the highlights are:

- The delivery of record Earnings Per Share (EPS).
- In the midst of a consumer squeeze, trading sales were up +8.4% on last year. (Excluding the weeks that were flattered by lockdown in the previous year, trading sales were up +4.8%).
- Returning £461.4m to shareholders through dividends (£237.4m) and share buybacks (£224.0m).
- The partial opening of our new Elmsall 3 warehouse.
- The launch of Reiss, our largest client to date, on Total Platform.
- The additions of JoJo Maman Bébé, MADE.com and Joules to our Total Platform brands.
- An increase of our equity stake in Reiss.

We will be welcoming Jeremy Stakol to the Board in April as Group Investments, Acquisitions and Third Party Brands Director. Jeremy has been the managing director at Lipsy since 2004 and in more recent years has successfully led many of the new investment transactions and related Total Platform opportunities.

We have prepared (and budgeted) for a difficult year. We are very clear on our priorities. If we continue to improve our product ranges, relentlessly manage our costs and upgrade our customer service, whilst also developing new business opportunities; we can lay the foundations for an exceptionally strong business and still deliver healthy profits, cash flow and dividends.

Our performance, as ever, is a result of the hard work and dedication of the NEXT team. I would like to thank my colleagues across the Group for all of their effort, talent and dedication.

**Michael Roney**
Chairman
29 March 2023

# CHIEF EXECUTIVE'S REVIEW

## STRUCTURE OF THIS REPORT

The report is broken down into the following sections:

- **PART ONE**: **Headlines and Summary of Financial Performance**, gives a short overview of the financial performance of the Group in the year and our guidance for the year ahead.
- **PART TWO: Big Picture**, summarises the way we are thinking about the Company's future in the context of the last twenty years. It comes at a pivotal time for the Group and summarises (1) new avenues of growth and (2) our priorities for the year ahead.
- **PART THREE: Group Financial Performance and Full Year Guidance**, details our Group sales and profit performance for the year, summarised by business division, along with our sales and profit guidance for the year ahead.
- **PART FOUR: Retail, Online and Finance - Financial Performance, Commentary and Guidance,** gives a detailed breakdown of the financial performance of each trading business division. This section is mainly for the benefit of analysts and professional investors.
- **PART FIVE: Total Platform and Other Business Activities**, gives a detailed breakdown of the financial performance of Total Platform and other non-trading business activities.
- **PART SIX**: **Cash Flow, Dividends and Net Debt,** gives a detailed breakdown of our cash flow and shareholder distributions, including our guidance for the year ahead.

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# PART ONE
# HEADLINES AND SUMMARY OF FINANCIAL PERFORMANCE

## SALES AND PROFIT IN THE YEAR TO JANUARY 2023

| £m | Jan 2023 | Jan 2022 | 1 Year var % | Jan 2020 | 3 Year var % |
|---|---|---|---|---|---|
| **Total Trading Sales**[1] | 5,146.1 | 4,746.5 | +8.4% | 4,267.2 | +20.6% |
| **NEXT Profit before tax**[2] | 870.4 | 823.1 | +5.7% | 748.5 | +16.3% |
| **Profit after tax** | 711.7 | 677.5 | +5.0% | 610.2 | +16.6% |
| **Basic Earnings Per Share**[3] | 573.4p | 530.8p | +8.0% | 472.4p | +21.4% |

## HEADLINES

- Full price sales[4] up **+6.9%** versus 2021/22 and +20.5% against 2019/20. Total Trading Sales, including markdown, were up +8.4% versus 2021/22 and +20.6% against 2019/20.
- Profit before tax of **£870m**, up **+5.7%** versus 2021/22 and +16.3% against 2019/20. This is +£10m higher than our previous guidance of £860m.
- Full price sales in January were flat and in line with our guidance. However, the participation of higher margin Retail sales was greater than expected, which added £5m to profit.
- Clearance rates in our end-of-season Sale were ahead of our expectations and added a further £5m to profit.
- Basic Earnings Per Share (EPS) **573.4p**, up +8.0% versus 2021/22 and +21.4% versus 2019/20.

### Outlook for the Year Ahead

- We are maintaining our current guidance for sales and profit (see page 25 for analysis of current trade and further detail).
- We are budgeting for full price sales to be down **-1.5%** versus last year and NEXT profit before tax to be **£795m.**
- Selling price inflation is forecast to be more benign than previously thought. Like-for-like price inflation in Spring/Summer is expected to be **+7%** and, in Autumn/Winter, **+3%** (previously +8% and +6% respectively).

A detailed analysis of our guidance for the year ahead is given on page 25.

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[1] Total Trading sales are VAT exclusive sales (including the full value of commission based sales) in Retail, Online plus NEXT Finance interest income. They exclude sales through Total Platform and Joules, in which we acquired a 74% equity stake during November 2022. Trading sales are not statutory sales (refer to Note 2 of the financial statements). Statutory sales were up +8.8% versus 2021/22 and up +18.0% versus 2019/20.

[2] NEXT profit before tax, profit after tax and EPS reflect the profit attributable to the shareholders of NEXT plc. They exclude the effect of the Joules minority interests. Statutory profit before tax, including minority interests, is £869.3m, see Appendix 2 for detail.

[3] All references to EPS in the CEO report are 'Basic' EPS unless otherwise stated.

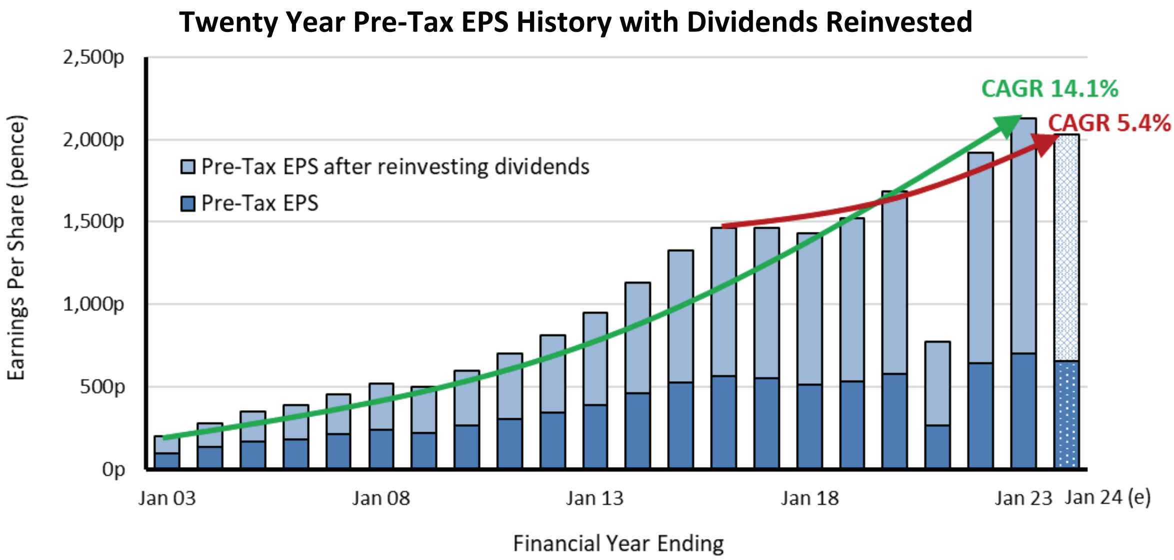
[4] Full price sales are total Trading sales, less items sold in Sale events and Clearance.

# PART TWO
# BIG PICTURE

## THE LONG VIEW

### *A very respectable twenty years*

NEXT plc's core measure of success is the sustainable growth in Earnings Per Share. In the last twenty years, the Company has delivered a compound annual growth rate (CAGR) of 14.1% in pre-tax EPS (assuming the reinvestment of dividends[5]), a very respectable return by the standards of most public companies.




### *The last eight years have been an uphill battle…*

But in business you are only as good as your next set of results. Looking at our EPS guidance for the year ahead, in the context of the last eight years, is sobering. If our guidance is correct, EPS will have delivered a CAGR of 5.4%; more than enough to keep pace with inflation (CPI), which was 3.5% over the period, and good in the circumstances, but unexciting in absolute terms. And ultimately, investors are most interested in absolute returns.

### *The BIG question: maturity or growth?*

The big question is whether the Company's modest growth over the last eight years is indicative of its prospects going forward; or can it return to higher levels of growth more in keeping with its longer term performance? As it stands today the Group has far more ideas and opportunities for long term growth than it has had for some time. And while the year ahead looks very challenging, we are not facing the kind of long term structural obstacles that we have overcome in the past eight years.

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[5] Assumes that all ordinary *and* special dividends were used to purchase NEXT shares, on the date that the dividends were paid.

### *Eight years weathering storms*

Over the last eight years, the Company has endured three considerable shocks: the structural shift in shopping habits from Retail to Online; the pandemic; and now the cost of living squeeze.

Of these three challenges, the least dramatic has had the most profound effect: the structural change in our industry resulted in a precipitous decline in Retail turnover, offset by rapid growth Online. The central difficulty was that Retail costs, such as rent and rates, in the short term remained fixed. Retail rents and other costs are beginning to adjust to the new reality (see page 32), but the transition has been uncomfortable.

Conversely, the costs associated with Online growth, such as delivery and warehousing, have risen in line with sales *and* have required significant capital investment. The effect has been that we have had to undertake the painful process of cutting costs in our Retail operations, whilst racing to keep up with growth Online.

### *A great accomplishment, but…*

NEXT's steady growth in these circumstances represents a considerable accomplishment. But, in a year when profits look set to decline, it would be right for us to question the Group's prospects for longer term growth. The following paragraphs explain our thinking about the direction of the Group over the next few years and then sets out our immediate priorities for the year ahead.

# WHAT'S REALLY GOING ON HERE

Our diagnosis, set out in the following pages, is that NEXT plc can return to higher levels of growth once the cost of living crisis has passed. Our reasoning runs as follows:

1. The Group's heartland, NEXT-branded, business *in the UK* is **established but not standing still**.
2. The Group has developed outstanding **assets and skills** that can deliver growth outside its heartland business.
3. **New avenues of growth** are proven, but at early stages in their development.

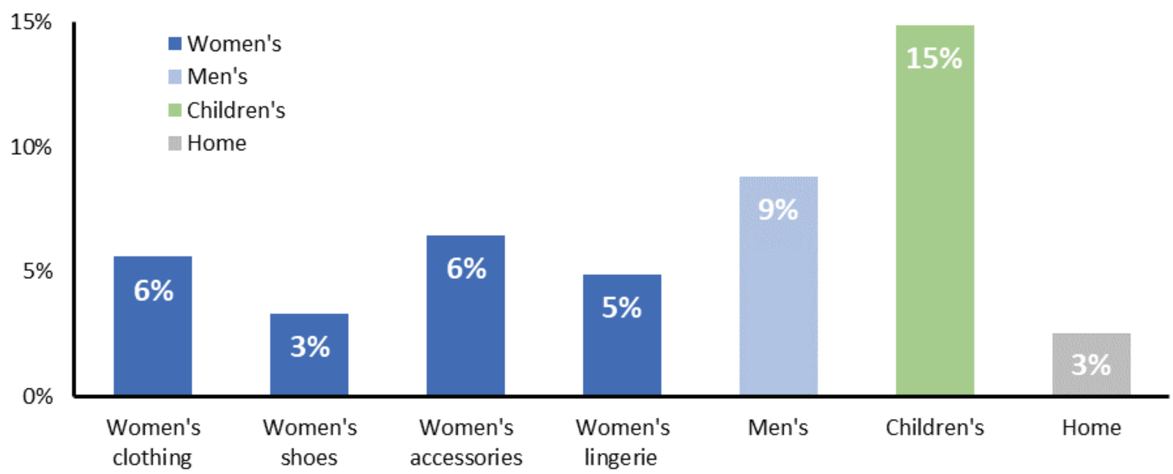
## NEXT BRAND UK - Established but not Standing Still

NEXT has around 7m Online customers[6] in the UK, close to 25% of the UK's 28m[7] households. Our 466 stores give us a presence in almost all major UK and Ireland trading locations. Our product ranges stretch from women's clothing through to upholstery. So the opportunities to expand our customer base, trading space and product offer are less numerous than they were.

But we are far from running out of ideas. Our product teams continue to push the boundaries of their offers, in terms of design content, price architecture and product categories. Our e-commerce and marketing teams can still do much more to recruit and retain new customers, and drive growth in website traffic, online conversion and sales per customer.

The NEXT brand accounts for less than 10% in most of its key markets (see chart below). So, while our market share renders exceptional growth unlikely, we are a long way from reaching saturation.

**NEXT Brand UK Market Share[8] by Product Category**




### *Developing the NEXT brand remains our first priority*

Our highest priority remains the continued development of the NEXT brand; it is our most valuable asset and cornerstone of the Group. In past reports we have written at length about the measures we take to improve our product ranges, customer service, websites, marketing and stores. So we have not elaborated on them here. Shareholders should not confuse lack of detail with loss of focus. We have concentrated on new business opportunities here, not because they are most important but because, to the outside world, they are the least understood.

## Group Assets and Skills Can Deliver Further Growth

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[6] NEXT Online customers in the UK at the end of January 2023 were 6,993k, (2,870k credit and 4,123k cash).

[7] ONS, 2021 Census.

[8] Chart sources: Women's, Men's and Children's total UK Sales taken from Kantar, 52 weeks to 5 February 2023. Home UK sales taken from Globalreach, Q4 2022.

The fact that our core business is well established has an advantage: over the last thirty years it has built up valuable trading assets and skills - software, infrastructure, stores and people - that can be used to build new growth businesses. Those assets are as follows:

| | |
|---|---|
| **Physical infrastructure** | NEXT operates 9m sq. ft. of highly automated warehousing for fashion and homeware products along with distribution depots, transport fleets, returns centres, contact centres and our UK and Ireland store network. |
| **Software** | Over the years NEXT has developed thousands of bespoke and proprietary software applications, running across our Online, Finance and Retail businesses. These include systems for websites, apps, tills, stock management, staff scheduling, warehouses, distribution, buying and merchandising, contact centre and more. |
| **Product skills** | Our design, sourcing, product technology, buying and merchandising skills alongside our global sourcing office (NEXT Sourcing) and wider manufacturing network. |
| **Customer base** | NEXT Online's 8.7m worldwide customer base[9] enables the further development of our aggregation business, selling third-party brands to our customers on our websites in the UK and overseas (our LABEL business). |
| **NEXT brand (overseas)** | NEXT is increasingly becoming an international brand with the potential to further extend its reach overseas. |
| **Balance sheet** | Healthy cash resources, strong balance sheet and strong cash generation gives the Company the ability to further invest in infrastructure and new businesses. |



[9] Customer numbers at the end of January 2023.

# NEW AVENUES OF GROWTH

## FOUR NEW AND DEVELOPING BUSINESSES

There are four main areas of opportunity outside our heartland business. These are:

- Total Platform (see page 13)
- Investments and acquisitions (see page 15)
- New brands and third-party licences (see page 40)
- Developing the NEXT brand overseas (see page 16).

### Growth… But Not at Any Cost

Before we move on to discuss these opportunities in detail, there is an important aspect of our thinking that needs clarification.

It is all too easy for companies to lose sight of the fact that assets that deliver modest growth and healthy cash flow are very valuable assets. Too many 'mature' companies have been sacrificed at the altar of 'growth': it is a well-trodden path that has littered corporate history with the carcasses of ruined companies - from GEC/Marconi to Northern Rock. Growth can always be bought, and ambitious sales targets achieved, through taking on higher and higher risks for lower and lower returns.

We are very clear: if we cannot find *good quality* investments, then there is no shame (and much wisdom) in handing surplus cash back to our shareholders.

# TOTAL PLATFORM

Total Platform is operational and working well across our four clients (Reiss, GAP, Victoria's Secret and Laura Ashley). For a more detailed analysis of Total Platform sales, profits and margins, please see page 50).

## The Benefits of Total Platform

There are five big advantages clients get from switching their operations to Total Platform. These are:

| | |
|---|---|
| **Delivery services and website functionality** | Total Platform deploys the infrastructure NEXT has built over more than 30 years. This includes a next-day delivery on orders before 11pm, fully integrated e-commerce and in-store stock systems, rapid customer refunds, international websites, returns through stores (including NEXT stores), unique item identification and much more.<br><br>In terms of the website, clients can benefit from all of NEXT's online functionality: AI driven search engine, intelligent recommendations, personalised search results, saved bags, credit facilities and more. |
| **Friction free, capex free growth** | Clients do not need to worry about upgrading their web capacities, warehouse space and distribution networks. They can deliver exceptional levels of growth without operational friction and step changes in their capital expenditure. |
| **Variable cost base** | Total Platform is charged as a percentage of the client's turnover, leaving clients with few, if any, fixed operational costs. So in the event of a downturn, clients are not burdened with fixed costs they do not need. |
| **Better presence on LABEL** | Because our clients' stock is consolidated in NEXT's central warehouses, all their stock is available to sell to NEXT customers on LABEL. This has delivered significant sales growth on LABEL to all our existing clients. |
| **Focus** | Total Platform allows clients to focus on the aspects of their business where they make the most difference: designing and buying great products and developing their brand identity. |

## Priorities for the Year Ahead

Focus for the year ahead will be:

- The full implementation of two new websites (JoJo Maman Bébé and MADE.com) and the development of Joules' website, planned for April 2024.
- The removal of warehouse capacity constraints (target completion October 2023).
- The 'productionising' (sorry for the dreadful word) of our software to make it much easier to configure and maintain going forward.

Currently, our ability to take on new clients is constrained by three factors: warehousing capacity, systems timescales and the people and expertise required to onboard new clients. This year we aim to eliminate all three bottlenecks as detailed below.

## Warehousing Capacity

Our new large boxed warehouse, Elmsall 3 (see page 57), will be operational towards the end of 2023. This new warehouse will remove the physical constraints to onboarding new fashion clients.

## Systems Timescales and Costs

The constraint for Total Platform going into 2024 will be the speed at which we can develop new website 'platforms' for new clients. Towards the end of 2022, we began simplifying the process for creating new Total Platform websites; this process is explained below.

### *Existing code*

Historically, we created separate copies of our website for each new client, which is costly and time-consuming. It also meant that whenever we upgraded our own website, we had to duplicate and test new code across each client's code base. As the number of clients grows, this process of maintaining functional parity would have become exponentially more difficult.

### *Templates and single code base*

Going forward we are taking a different approach. Each new client's website will operate different 'templates' of a *single* code base. In other words, each client's website will have a different 'view' of the same functionality, operating on the same code but with a different look and feel. This is similar to how we can individually configure our desktops to look unique while using the same operating system. This new approach will enable us to be more efficient in onboarding new clients, it will also ensure that clients are always kept up-to-date with improvements to website functionality.

### *Progress*

The table below demonstrates our progress in reducing timescales and costs. It shows development man-hours (indexed to 100 for the Reiss website) along with the elapsed development time.

| Website development | Man-hours index[10] | Start and end date | Time elapsed[11] |
|---|---|---|---|
| Reiss | **100** | May 2021 - April 2022 | 11 months |
| JoJo Maman Bébé | **36** | Sept 2022 - May 2023 | 8 months |
| MADE.com | **24** | Mar 2023 - July 2023 | 4 months |
| New client | **15** | Mar 2024 - June 2024 | 3 months |

## People

Alongside improving our technology, we will also reinforce the teams who scope, onboard and manage new clients. This will ensure that the workload does not restrict our growth.

[10] Development time for JoJo Maman Bébé and MADE include an estimate of the time required to develop an App to make them directly comparable with Reiss.

[11] The development time is just coding time and does not include specification time or post implementation support.

# INVESTMENTS AND ACQUISITIONS

### *A new activity*

In 2021 we acquired a 25% stake in Reiss; it was our second acquisition of any material size in 30 years. Since then, we have made nine other investments, including a further 26% in Reiss, JoJo Maman Bébé, Sealskinz, Joules, MADE.com, Swoon, Aubin, along with a stake in the UK franchises for Victoria's Secret and GAP. Last year these investments delivered **£16.8m** profit to the Group.

### *An unintended consequence of Total Platform*

When we first appraised Total Platform, it appeared to us that the value created for clients was likely to exceed the relatively modest profit generated for NEXT as a service provider. So it seemed sensible to invest in our future clients. In fact, so far, the Group has made more profit from these equity investments than from the service itself.

In a world where many retail businesses are regularly bought and sold by private equity owners, Total Platform gives NEXT a means of adding value to an investment unavailable to purely financial buyers.

### *Working with partners*

70% of the cash invested in other retailers was done so with other partners. Working alongside seasoned private equity professionals brings us important negotiation and valuation skills, and serves to spread our investments across a wider pool of retailers. In other investments, partnerships have been with the overseas owners of brands in which we operate the UK franchise (Victoria's Secret and GAP).

### *Rules of engagement*

There are four criteria we look to achieve when investing. These are:

| | |
|---|---|
| **Great brands** | We will focus on brands that bring something unique to the market with a clear market position - customers, staff and suppliers understand what they stand for. |
| **The potential to add value** | Total Platform must be able to add value to the investment. We have declined opportunities to invest in good businesses because we felt we could not add enough value to their operations. |
| **Great management** | We do not intend to run the businesses in which we invest. They must be able to operate and thrive independently, so we are looking for businesses that either have great management (like Reiss) or where we are confident that we can find the right people (like MADE.com). |
| **Right price** | We are not the sort of business that makes 'strategic' investments, we *only* invest in businesses if we think they can deliver healthy returns on shareholders' funds. |

### *Some exceptions will break the rule…*

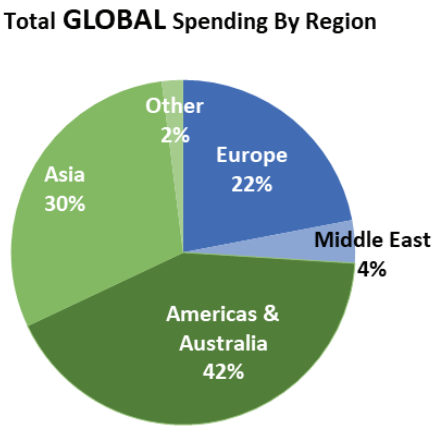
There will be exceptions to these rules. With the proviso that we never (consciously) overpay, we may compromise some of these criteria if the others align. For example, we invested in Swoon which is a great business, brilliantly led with a reasonable price tag; but, in the short term, there are no plans to put them on Total Platform.

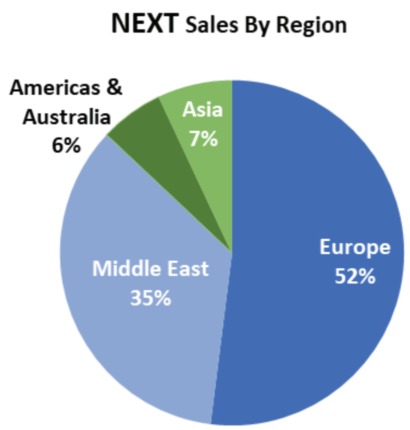
## NEXT BRAND OVERSEAS - WHOLESALE, FRANCHISE & LICENSING

In many overseas markets we have successful direct-to-consumer online businesses. We also have some very productive partnerships with local aggregators (such as Zalando). However, it is apparent that our direct-to-consumer model is not effective in some very sizable markets.

### *The further away the market, the less direct-to-consumer appears to work*

The pie charts below give a sense of the opportunities we might be missing overseas. The left hand chart shows total consumer spending[12] on all consumer goods by major region. The chart on the right shows the percentage of our Online overseas sales NEXT takes by region (both charts exclude the UK). The over-performance of regions closer to the UK, points to potential opportunities further afield. Europe and the Middle East, which account for 26% of the world's consumer spending, account for 87% of our online sales overseas.




### *Factors that might impede growth*

It is unsurprising that our direct-to-consumer business struggles in the Americas and Asia. Inventory is sent to customers, using air freight, from our UK warehouses. A business that imports goods to the UK from the Far East and then ships them back by air, customer by customer, with all the logistical and customs overheads involved, is unlikely to be competitive.

There are many factors that may be hindering the success of our direct-to-consumer online business in some regions. These consist of (1) elevated tariffs and bureaucratic obstacles, (2) prolonged delivery times, (3) the dominance of local competition, (4) local product regulations, (5) limited brand recognition, and, naturally, (6) the possibility that our product range may not align with the preferences of the local market.

### *Actions and trials*

Among these challenges, only the last is insurmountable - if our products do not appeal to the local market, then no amount of effort will make our business a success. The remaining issues *are* soluble. So we are currently exploring alternative business models to address these and other obstacles, including:

- Wholesaling or franchising products to local operators, and shipping stock directly to them from the point of origin. This may require additional testing to accommodate product standards that differ from the UK.
- Licensing arrangements with local operators who might manufacture the goods themselves.
- Wider use of new local aggregators to reach new consumers and raise brand awareness.

We will be trialling all of these approaches, in a number of territories, over the coming years and strengthening the teams required to make that happen.

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[12] World Bank data: Households and NPISHs Final Consumption Expenditure (current US$) 2021. Data excludes the UK.

# ORGANISATION, MANAGEMENT AND CULTURE

As the Company takes on new challenges, we need to re-organise to ensure that we maximise the opportunities available to the Group. As importantly, we need to ensure that new business opportunities do not end up taking too much time from those whose main task is developing our heartland NEXT product, services and operations.

## A NEW DIVISION

Earlier this year we created a new division of the Group to focus on Investments, Acquisitions and Third-Party Brands. The Investments Division has been placed under the leadership of a newly promoted main Board Director, Jeremy Stakol (see RNS, 8 February 2023). The new division will aim to maximise the following business opportunities:

- The sale of all third-party fashion brands through LABEL (this excludes Homewares where third-parties and licences will be managed through our Home department).
- Investments in, and acquisitions of, third-party brands.
- The promotion (but not implementation and management) of Total Platform to potential new clients.
- Licensing deals with third-party brands, where we manufacture and sell goods under licence.
- The continued development of Lipsy along with other wholly-owned, non-NEXT brands (for example ‘Love & Roses’ and ‘Friends Like These’).
- Overseas wholesale, franchise and licensing of NEXT-branded stock.

## AN ACCELERATOR NOT A BRAKE....

Of course, all of these opportunities already involve many other departments across the business. And it is important to stress that, while Jeremy and his team will aim to advance these areas, they will not control them. In our internal communications, I have been very careful *not to* use the word ‘co-ordinate’ or ‘control’ when describing Jeremy’s role. This change should not prevent others from taking initiatives in these areas. For example, many of our product divisions will continue to develop their own licence arrangements alongside any initiatives the Investments team may take.

So, while this new division will serve to accelerate opportunities, it will not act as a brake on the initiatives others are taking in these areas. Indeed, many of the transactions the Investments division identifies may well be passed on to others in the Group to execute.

## CULTURE AND EXPECTATIONS

People often talk about culture in terms of the qualities they aspire to. Of course, NEXT aspires to be many things, but aspirations are not enough: for NEXT culture is about what we *expect* from one another. The following paragraphs give a flavour of some of the behaviours we expect from each other:

1. **Take decisions and make things happen**. Colleagues do not need permission to take decisions, taking sensible decisions is a requirement of their job. We do not take minutes[13] at our meetings, we only take action points. Whatever is *said* at a meeting, all that matters is what *happens* as a result. If there were no actions, the chances are it was a wasted meeting. You will be judged by the things you make happen, not by the infographics you put in a 'deck'.
2. **Change is everyone's job**. This follows on from taking decisions. Managing change is part of everyone's job; we do not have a 'Change' Department or a 'Transformation' Director, nor do we have a battalion of business project managers operating outside business as usual. Change and transformation are part of all of our work; we all take on new projects; there is no 'business as usual' because our business constantly changes.
3. **Create value** and make profit. We do not make 'strategic' investments, we invest for a return on our shareholders' money. All our activities, in one way or another, must work towards that goal.
4. **Keep it simple and speak in plain English;** you will achieve so much more. Business jargon is so unhelpful because it makes simple things sound complicated. It also excludes people who are unfamiliar with this insider language. And if we use clear, easily understood language, *everyone* can contribute and make our actions more effective.
5. **Be open, honest and considerate in your dealings with others**. Life is too short to spend it with people who are unpleasant, and teams that get on well together are more likely to achieve their aims. So treat those around you well. Remember, you are not competing with the other people in NEXT, they are on your side, and if you are not on *their* side you are doing something wrong.
6. **Be demanding but never nasty**. There is a world of difference between being demanding and being nasty. Whatever your job, you will likely need to give people uncomfortable feedback, occasionally very uncomfortable. At NEXT we are demanding but also considerate and polite. You do not need to be nasty to succeed: leadership in business does not require you to act like a monster or scramble over those around you; in our experience, quite the reverse.

Of course, many of us (including me), on occasions deviate from these ideals, particularly when we get frustrated, but our aspirations are very clear.

### *Small ideas make a big difference*

We want to be an organisation that thinks and collaborates at every level, where everyone feels they are making a difference. So many of our important decisions are, in the scheme of things, small. Choosing the colour of a dress, optimising a warehouse operation, tweaking the functionality of a web page - each decision, on its own, will make little difference. But the sum total of a myriad of such decisions, made well, are what makes the difference between great success and abject failure.

### *And in retail big ideas often start small*

And even if I think about the big ideas that have transformed the business such as our first internet business, the beginnings of our LABEL business, our first overseas website and our first licence agreement: almost all those ideas started life as small initiatives, few of which emanated from the Board Room. They began because people experimented, took decisions and pushed boundaries. It is the Board's job to foster and direct this spirit of enterprise, and ensure that, where ideas do succeed, we push them as hard as possible and as far as they will go.

[13] We do, of course, take minutes at meetings where there is a regulatory, legal or corporate governance requirement.

# ACTIONS FOR THE YEAR AHEAD

This year, the opportunity for growth is naturally limited by market conditions, so we will focus on improving the basics of our business whilst taking the opportunity to strengthen the foundations of the business for future years. There are four main tasks:

- Improving our product ranges
- Improving our online service levels
- Managing costs and profitability
- Laying the foundations for future growth businesses.

### *Improving our product ranges*

As ever, our focus remains firmly fixed on the continued improvement of our **product ranges**. The opportunity to stretch the brand: increasing the breadth of our offer to customers.

The re-opening of overseas travel - to visit our suppliers and find other sources of inspiration - appears to have energised our ranges, with many areas pushing into more diverse designs, new fabrications, price points and categories. We know that, in our customers' eyes, we are only as good as our latest ranges. So our product teams continue to push themselves and their suppliers to exceed customer expectations.

### *Improving online service levels*

Since the beginning of the pandemic our online service levels (in terms of the speed and accuracy of delivery) have suffered. First it was the pandemic itself that interfered with our operations. More recently our acute lack of warehouse space, combined with a national shortage of warehousing and distribution personnel at peak times, has served to hamper operations. The delivery of new warehousing capacity (see page 57) along with new automation and technology, provides the opportunity to materially improve the accuracy of our picking, packing and delivery operations: getting more items to more customers on time. The aim is to restore *and surpass* our pre-pandemic reliability.

In addition, we have invested in new contact centre technology with a view to materially improving our ability to handle enquiries and complaints. So when things do not go to plan, we can remedy the situation quickly and more efficiently.

### *Managing costs and profitability*

In a year where sales are not expected to grow, and inflation is driving up costs, we have turned our minds to where we can save money within the organisation. The main heads of cost saving are detailed below:

- **Cost of the goods.** A combination of negotiation, new sources of supply and managing the cost of inbound freight is beginning to bear fruit (see NEXT selling price inflation on page 25).
- **Costs of operations**. All of our operational teams - from stores to contact centres - are looking at new ways to be more efficient. Our new Elmsall 3 warehouse, with its new automation, provides an important opportunity to eliminate many of the inefficiencies incurred as a result of congestion and lack of storage space.
- **Business channel profitability**. We have made good progress in reviewing all the product categories and brands we sell, through all the channels and territories that we sell them. This has yielded some big opportunities to adapt our offer and pricing to ensure that we are profitable by product category, by brand, by channel and by overseas territory.
- **Technology**. Last year we delivered a huge amount of much needed new technology and made good progress with our modernisation projects. Having built a strong technology base, we now need to focus on ensuring it delivers increasing value for money.

### *Laying the foundations for growth*

Lay the **foundations for our growth businesses**. Putting in place the technology, warehousing, distribution networks, organisation and people required.

# IN CONCLUSION

The year ahead looks like it will be challenging: the combination of inflation in our cost base and top line sales which are likely to edge backwards is uncomfortable. But the Company is well prepared. If we achieve our guidance, a moderate sales decline will result in a pre-tax profit of £795m, strong cash flow and underlying net margins of around 15%.

Looking through next year to the longer term our prospects feel more positive than they have done for some time. The burdens of the structural change to our industry appear to have eased, our Retail business is a much smaller percentage of the Group than it was eight years ago, and its rent and rates bill is slowly adjusting to reflect current levels of retail demand. This year, the Group will focus on improving its product ranges, online service levels and cost controls. As importantly, the Group is also laying the foundations for new avenues of growth to complement and leverage our heartland business.

# PART THREE

# GROUP FINANCIAL PERFORMANCE IN 2022/23 AND GUIDANCE FOR 2023/24

## THREE NOTES ON THE PRESENTATION OF THESE RESULTS

**These three notes are consistent with the changes made in our Half Year report issued in September 2022 and are repeated here for clarity.**

**Please note that none of these changes affect the reported overall margins or total profits for the Group in any year.**

### Comparative Year for Sales and Profit

Here, and throughout this report, comparisons with last year are dominated by the impact of the pandemic, most of which have been explained in previous reports. So, we have devoted very little time to explaining the one year variances in our main trading divisions (Online and Retail). Instead, we have focused on the three year variances which give important insights into the changing economics of the Group. Part Four gives a detailed insight into sales and costs by division.

### Accounting for Lipsy Profits

In the past we have split the profit we generate from selling Lipsy goods through the NEXT website. Half the profit was reported in our Online division. The other half was reported in the Lipsy division which was within Other Group Activities, along with Property and Sourcing. However, because ***all*** of Lipsy's sales were reported in the Online division, this served to understate the margin of the Online business. Three years ago, Lipsy's 'share' of Online profit was immaterial at only £6.8m; today the number would be £27.5m.

To correct this issue, we are now reporting all of Lipsy's Online sales *and* profits through the Online division. We have adjusted the relevant numbers from last year and three years ago, so that comparisons are on a like-for-like basis. We have corrected a similar reporting anomaly for the Finance division, whereby half the Finance profit on Lipsy sales was reported in Lipsy.

A detailed account of this change is given in Appendix 1.

### Accounting for Total Platform Profit

Last year, the profit on Total Platform was reported across two business areas: (1) profit on sales was reported within the Online division and (2) equity returns were reported within Sourcing, Property and Other.

The business has grown significantly in the last 12 months and we believe it would aid understanding of performance to present the sales and profits in its own division. We have represented last year's numbers to reflect this change. The effect of this change is very small and details are provided in Appendix 1.

# GROUP SALES AND PROFIT SUMMARY

Full price sales (excluding Total Platform sales) were up **+6.9%** versus 2021/22 and up +20.5% versus 2019/20. Total Trading Sales (including markdown sales) were up **+8.4%** versus 2021/22 and up +20.6% versus 2019/20.

NEXT Profit before tax was **£870m,** which was up **+5.7%** versus 2021/22 and up +16.3% versus 2019/20.

## TOTAL GROUP SALES BY DIVISION[14]

| TOTAL SALES (VAT EX.) £m | Jan 2023 | Jan 2022 | 1 Year var % | Jan 2020 | 3 Year var % |
|---|---|---|---|---|---|
| Online | 3,006.6 | 3,064.7 | - 2% | 2,146.6 | +40% |
| Retail | 1,865.1 | 1,432.4 | +30% | 1,851.9 | +1% |
| Finance | 274.4 | 249.4 | +10% | 268.7 | +2% |
| **Total Trading Sales** | **5,146.1** | **4,746.5** | **+8.4%** | **4,267.2** | **+20.6%** |
| Total Platform | 144.4 | 39.1 | +269% | 0.0 | - |
| Franchise, Sourcing, Property & Other | 124.0 | 76.2 | +63% | 94.6 | +31% |
| **Total Group sales** | **5,414.5** | **4,861.8** | **+11.4%** | **4,361.8** | **+24.1%** |
| **Total Group statutory sales** | **5,034.0** | **4,625.9** | **+8.8%** | **4,266.2** | **+18.0%** |

A full reconciliation of Group sales to Group statutory sales is provided in Appendix 2 on page 65. The difference between Group sales and Group statutory sales is primarily due to the accounting treatment of items sold on commission through Online LABEL UK. Specifically, the gross transaction value (GTV) of these items is not included in Group statutory sales, whereas it *is* included in Group sales. Instead, the commission earned on the GTV (which is around 37%) is recognised as revenue in Group statutory sales.

[14] Online sales for January 2022 have been restated to move £39m of Total Platform sales into its own division.

## SUMMARY OF GROUP PROFIT[15] BY DIVISION

The table below summarises the movement in profits for the major divisions within the Group versus last year and three years ago.

| PROFIT £m and EPS | Jan 2023 | Jan 2022 | 1 Year var % | Jan 2020 | 3 Year var % |
|---|---|---|---|---|---|
| *Total Trading Sales (given for reference)* | | | *+8.4%* | | *+20.6%* |
| Online | 467.3 | 604.4 | - 23% | 417.3 | +12% |
| Retail | 240.5 | 107.0 | +125% | 234.0 | +3% |
| Finance (after charging interest) | 170.5 | 149.5 | +14% | 152.9 | +12% |
| **Profit from Trading** | **878.3** | **860.9** | **+2.0%** | **804.2** | **+9.2%** |
| Total Platform (inc. equity)[16] | 16.3 | 6.9 | +135% | 0.0 | - |
| Property, Sourcing, FX and Other | 13.5 | 6.7 | +101% | 13.4 | +1% |
| Recharge of interest from Finance | 34.4 | 30.9 | +11% | 36.3 | - 5% |
| **Operating profit** | **942.5** | **905.4** | **+4.1%** | **853.9** | **+10.4%** |
| Lease interest | (47.3) | (50.4) | - 6% | (61.8) | - 23% |
| **Operating profit after lease interest** | **895.2** | **855.0** | **+4.7%** | **792.1** | **+13.0%** |
| *Underlying operating margin* | *16.5%* | *17.6%* | | *18.2%* | |
| Net external interest[17] | (24.8) | (31.9) | - 22% | (43.6) | - 43% |
| **NEXT Profit before tax[18]** | **870.4** | **823.1** | **+5.7%** | **748.5** | **+16.3%** |
| Taxation | (158.7) | (145.6) | +9% | (138.3) | +15% |
| **Profit after tax** | **711.7** | **677.5** | **+5.0%** | **610.2** | **+16.6%** |
| **Earnings Per Share** | **573.4p** | **530.8p** | **+8.0%** | **472.4p** | **+21.4%** |

## Lease Interest Charges, Operating Profits and Operating Margins

Under the IFRS 16 accounting standard, some of our rental costs are accounted for as lease interest. To show the full cost of our leases in our analysis of margins, we have added a line in the table above to show underlying operating profits *after deducting lease interest*. As shown, lease interest has fallen significantly in recent years, reflecting the renegotiation of many of our store leases as they have come up for renewal.

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[15] Profit by division in January 2020 and 2022 includes the effect of IFRS 16 and restatements for the presentation of profit from Lipsy and Total Platform. See Appendix 1 on page 62 for more detail on Lipsy and Total Platform changes.

[16] Total Platform (TP) profit of £16.3m includes (1) profit from providing TP services and (2) profit from our equity investments in TP clients. In addition, the external interest line includes £5.5m of preference share interest from our investment in Reiss and interest from loans made to other TP investments, giving total Group profit for TP of £21.8m. See page 50 for more detail.

[17] January 2023 external interest includes £4.8m of preference share income from Reiss and £0.7m from loans to TP investments.

[18] NEXT profit before tax, taxation and profit after tax reflect the profit attributable to the shareholders of NEXT plc. It excludes the effect of the Joules minority interests. See Appendix 2 for detail.

## Movement in Underlying Operating Margins

Over the last three years, underlying Group operating margins (including lease interest) have fallen by -1.63% from 18.16% to 16.53%.

The overall achieved margin of the Group will be determined by the mix of the various business streams within the Group. The total operating margin is not important as long as each business stream makes a margin commensurate with the risks and investment involved. The margins of our main business streams are set out in the table below.

| Margins[19] of our Trading businesses | | Jan 2023 | Jan 2020 | 3 year change |
|---|---|---|---|---|
| Retail (including lease interest) | see page 30 | 11.0% | 9.5% | +1.5% |
| Online NEXT UK (including lease interest) | see page 38 | 19.9% | 22.0% | - 2.1% |
| Online LABEL UK (including lease interest) | see page 42 | 12.9% | 15.4% | - 2.5% |
| Online Overseas (including lease interest) | see page 44 | 8.6% | 16.5% | - 7.9% |
| Total Online (including lease interest) | see page 37 | 15.2% | 19.2% | - 4.0% |
| NEXT Finance & Other | see page 45 | 57.6% | 55.6% | +2.0% |
| **Total operating margin** | | **16.53%** | **18.16%** | **- 1.63%** |

The main drivers of margin reduction and improvement over the last three years are set out in the table below.

| Factors reducing operating margins versus three years ago | Factors improving operating margins versus three years ago |
|---|---|
| Online inflationary pressures, mainly in our logistics operation (-1.4%)<br><br>An increase in spending on Technology (-1.0%) | Lower Retail occupancy costs (+0.7%), due to:<br>1. the renegotiation of store leases<br>2. the closure of unprofitable stores, and<br>3. lower depreciation (see page 30). |

[19] Retail and Online margins include lease interest costs, which are reported within the interest line of the P&L.

# GUIDANCE FOR THE YEAR AHEAD

We are maintaining the guidance previously set out in our January Trading Statement; with full price sales expected to decline by **-1.5%** and profit before tax to be **£795m**.

## NEXT SELLING PRICE INFLATION

In January's Trading Statement we set out guidance for the expected increase in our selling prices for the year ahead. We now believe price rises in the second half will be materially lower than we initially feared. Two factors have served to reduce pressure on pricing, these are:

- A significant reduction in the costs of container **freight** as shipping capacities return to normal.
- Improving **factory gate prices** (the price at which we purchase the goods in the country of origin) resulting from the increased availability of factory capacity, alongside our endeavours to move production to more cost effective sources of supply.

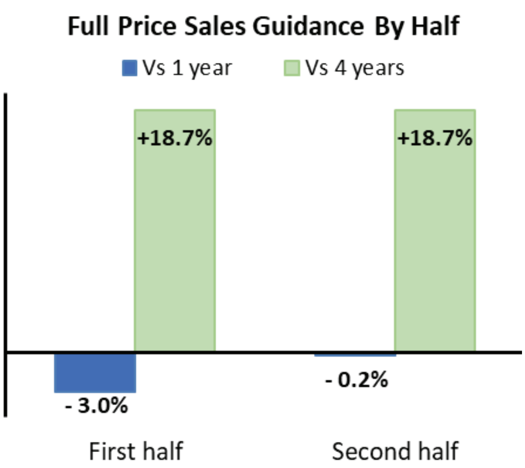
The majority of these benefits will be felt in the second half of the year and we have revised our guidance for price inflation in like-for-like garments accordingly. New guidance is set out in the table below, along with the guidance we gave in January.

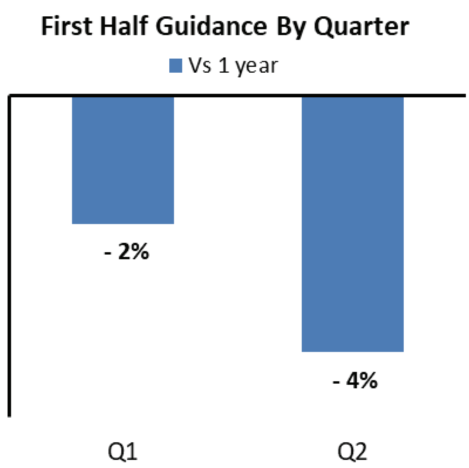
| Like-for-like price inflation guidance for 2023/24 | Latest Guidance | January Guidance |
|---|---|---|
| Spring & Summer | **+7%** | +8% |
| Autumn & Winter | **+3%** | +6% |

## FULL PRICE SALES

### Sales Growth Performance Guidance for the First and Second Half

We are expecting performance in the first half of the year to be weaker than in the second half. This is because, in the first half last year, unusually warm summer weather coincided with the release of pent-up demand for summer events after the pandemic (weddings, proms, races etc.). The chart on the left below shows the performance we are expecting in each half, compared to last year and four years ago, which was the last year before COVID. The chart demonstrates that, whilst performance against last year looks unbalanced, it is sensible when compared to four years ago, which was a more normal year. The chart on the right shows our guidance by quarter (rounded to the nearest whole number). As shown, we expect Q2 to be weaker than Q1.



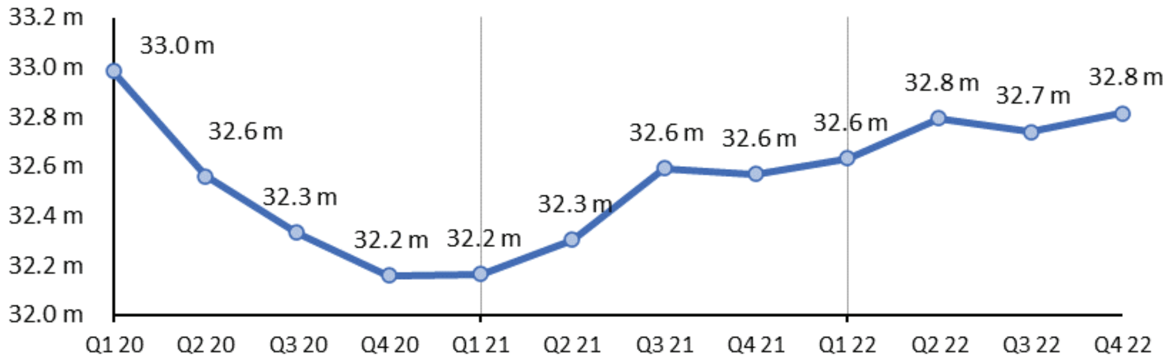
## Full Price Sales Guidance by Half and by Division

| Full price sales growth versus 2022/23 | First half | Second half | Full year (e) |
|---|---|---|---|
| Retail | - 5.5% | - 2.7% | - 4.0% |
| Online | - 2.5% | +0.4% | - 1.0% |
| Finance interest income | +7.5% | +8.6% | +8.0% |
| **Total full price sales versus last year** | **- 3.0%** | **- 0.2%** | **- 1.5%** |

## Guidance Comes with Caveats

Forecasting sales performance in the year ahead is complicated. No one really knows how the continuing cost of living squeeze will affect consumers, and we do not know what effect lower selling price inflation will have in the second half. It is equally unclear how much the exceptional summer weather, pent-up demand, and the Jubilee contributed to *last year's* sales.

**Total Employment Q1 2020 - Q4 2022[20]**




Employment levels remain robust and default rates in our credit receivables are below pre-pandemic levels, which is encouraging (see page 47). But we do not have a crystal ball nor a sophisticated economic 'model' (neither of which are accurate anyway). Our sales forecasts are a combination of intuition, recent experience and a limited selection of external economic data. We are no more sure of our sales estimates than is sensible - remaining flexible will be more critical than the accuracy of our current guidance.

### *Current trading*

Our current trade is broadly in line with our expectations as set out in the table below, which shows our performance to date versus last year and four years ago compared to our internal forecasts for the first quarter. For completeness the last row shows our guidance for the full year.

| Full price sales growth so far this year | Against last year | Against four years ago |
|---|---|---|
| **Full price sales performance in the last eight weeks[21]** | **- 2.0%** | **+21.3%** |
| *Full price sales performance guidance for the first quarter* | *- 2%* | *+19%* |
| Guidance for the full year | - 1.5% | +18.7% |

[20] Source ONS: Number of People in Employment (aged 16 and over, seasonally adjusted) (MGRZ). Figures are reported in calendar quarters (i.e. Q1 is Jan-Mar), rather than aligned to the NEXT reporting calendar where Q1 is Feb-Apr.

[21] Full price sales in the last eight weeks include an estimate of expected Online returns.

## GUIDANCE FOR PROFIT BEFORE TAX AND EPS

Guidance for profit before tax and EPS is set out in the table below. In April 2023, the UK Corporation Tax rate will increase from 19% to 25%, so we have shown EPS on both a pre-tax and post-tax basis.

| Guidance for the full year 2023/24 | Full year guidance | Versus 2022/23 |
|---|---|---|
| Full year full price sales | £4.5bn | - 1.5% |
| NEXT profit before tax | £795m | - 8.7% |
| Pre-tax EPS | 656.1p | - 6.4% |
| Post-tax EPS | 501.9p | - 12.5% |
| *Effective tax rate (new 25% rate effective from April 2023)* | *23.5%* | *18.25%* |

## Profit Walk Forward From 2022/23 to 2023/24(e)

The table below walks forward our profit before tax from last year (ending January 2023) to our forecast for the year ending January 2024.

| **NEXT profit before tax 2022/23 £m** | | **870** |
|---|---|---|
| **Loss of profit from -1.5% (£70m) decline in full price sales** | | **- 27** |
| **Cost increases** | | |
| Wage inflation (including third-party wages, e.g. couriers) | - 67 | |
| Electricity and gas | - 25 | |
| Spend on Technology | - 19 | |
| Other | - 5 | |
| **Total cost increases** | | **- 116** |
| **Cost savings** | | |
| Operational savings from a reduction in units sold | +25 | |
| Occupancy cost savings | +21 | |
| Markdown and clearance | +22 | |
| **Total cost savings** | | **+68** |
| **NEXT profit before tax 2023/24 (e)** | | **795** |

# PART FOUR

# RETAIL, ONLINE AND FINANCE

## FINANCIAL PERFORMANCE, COMMENTARY AND GUIDANCE

## NEXT RETAIL

### HEADLINES

- Full price sales were down -0.4% versus 2019/20 (i.e. pre-COVID).
- Total sales (including markdown sales) were up +1% versus 2019/20.
- Operating profit[22] was £204m, up +16% versus 2019/20.
- Net operating margins[22] improved from 9.5% in 2019/20 to 11.0%. The improvement was mainly due to a reduction in occupancy costs; a detailed breakdown of these and other costs is given on page 30.

### SUMMARY OF RETAIL SALES AND PROFIT

Retail sales and profit are summarised in the table below, along with the equivalent numbers for last year and three years ago. Please note that Retail profits and margins are given *after accounting for the cost of lease interest,* and in this section we have focused on the three year comparisons. The one year comparisons are shown in grey text.

| £m | Jan 2023 | Jan 2022 | 1 year var % | Jan 2020 | 3 year var % |
|---|---|---|---|---|---|
| Total sales | 1,865 | 1,432 | +30% | 1,852 | +1% |
| Operating profit | 240 | 107 | +125% | 234 | +3% |
| *Lease interest charge[23]* | *(36)* | *(42)* | - 14% | *(57)* | - 37% |
| ***Retail profit including lease interest*** | ***204*** | ***65*** | ***+214%*** | **177** | ***+16%*** |
| *Retail margin % (including lease interest)* | *11.0%* | *4.5%* | | *9.5%* | |

[22] After deducting Retail lease interest costs.

[23] Lease interest is reported within the Interest line of the consolidated income statement. £36m is the proportion of the total lease interest that is attributable to the Retail business.

## Like-for-Like Sales Performance by Store Location

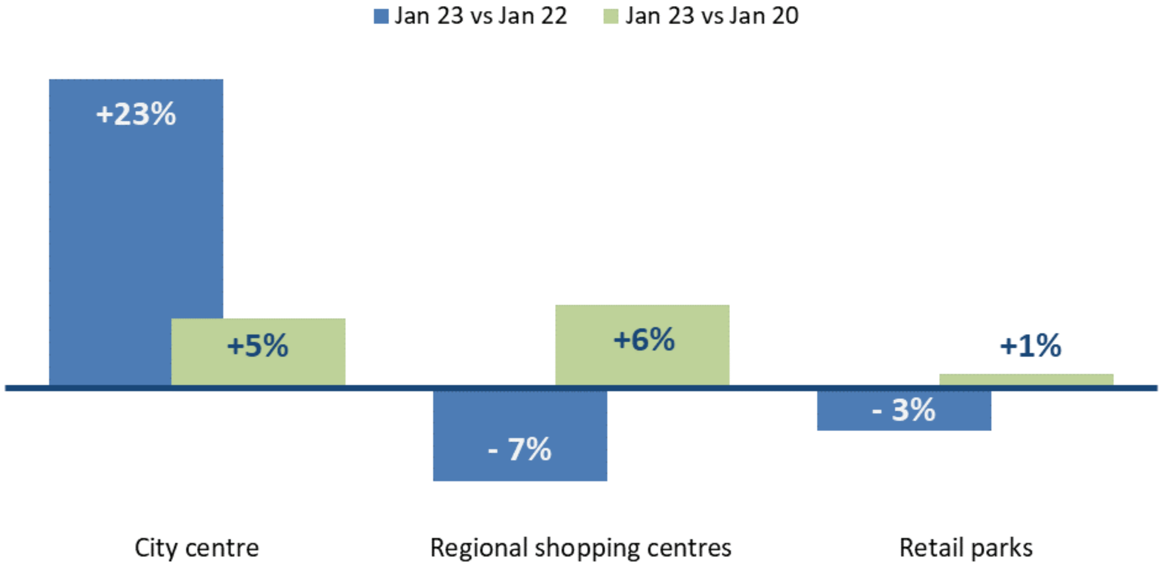
During the pandemic, we experienced a shift away from shopping in city centres, with customers preferring to shop in Retail parks in out-of-town locations. In the last twelve months, we have seen a shift back towards city centres.

The graph below shows the like-for-like sales performance of our Retail stores versus year ending January 2022 (in blue) and the year ending January 2020 (in green).

The graph clearly shows how performance in city centre stores has recovered compared to last year and that the performance across all locations is much more consistent when compared to the pre-pandemic year ending January 2020.

Overall, full price sales on a like-for-like basis were up +2.6% versus 2019/20.

**Retail Like-For-Like Full Price Sales by Store Type[24]**




**Sales Participation by Store Type Year Ending January 2023**


[24] Our stores were closed from week 1 to week 11 in the year ending January 2022, like-for-like sales comparisons are based on weeks 12 to week 52.

## Retail Margin Analysis - Three Year Comparison

Overall Retail net margin[25] for the year ending January 2023 was 11.0%, up from 9.5% three years ago. The margin impact of major cost categories is summarised below.

| Retail net margin (after lease interest) on total sales to January 2020 | | 9.5% |
|---|---|---|
| **Bought-in margin** | Higher freight costs reduced bought-in gross margin. | - 0.5% |
| **Markdown** | Clearance rates in our Sale events were lower than three years ago, reducing margin. | - 0.5% |
| **Branch payroll** | Increased rates of pay -1.3% were offset by improved productivity +1.1%. | - 0.2% |
| **Store occupancy costs** | Occupancy costs fell, improving margin, for the following reasons:<br>● Fully depreciated assets resulted in lower depreciation (+1.7%).<br>● Lower lease interest costs (under IFRS 16) as our lease liabilities have reduced (+1.3%).<br>● Store closures in the last three years have reduced occupancy costs (+1.0%).<br>● Lease renewals negotiated over the last three years have reduced the costs of rent, rates and service charge (+0.6%).<br>● Additional concessions have increased rental income (+0.4%). | +5.0% |
| **Energy** | Inflation in energy prices reduced margin. | - 0.9% |
| **Warehouse & distribution costs** | Warehouse and distribution costs grew faster than sales due to inflationary cost increases mainly in wages (-0.4%), distribution costs (-0.4%) and fuel (including energy) (-0.3%). | - 1.1% |
| **Technology** | Increased spend in Technology reduced margin. | - 0.3% |
| **Retail net margin (after lease interest) on total sales to January 2023** | | **11.0%** |

## GUIDANCE FOR RETAIL SALES AND PROFIT FOR THE YEAR AHEAD

We are forecasting Retail full price sales to be down -4% versus 2022/23. Based on this sales guidance, Retail's operating margin (including lease interest) is forecast to be around 9.0% for the full year. This 2% reduction in operating margin is largely due to inflationary cost increases in energy and wage costs.

In the year ahead, Retail will benefit from the change in business rates, announced in the Autumn Budget Statement, which saves £12.1m of costs and improves Retail's anticipated net margin by +0.7%. Please note, the Online business will incur a £2.3m cost *increase* in business rates for our warehouses, giving a net £9.8m saving to the Group as a result of the changes announced in the Autumn 2022 Budget, where rates costs reduced for shops but increased for warehouses.

[25] After deducting Retail lease interest costs.

# LEASE RENEWALS AND COMMITMENTS

## Lease Renewals in the Year Ending January 2023

In the last year we have renewed 62 leases, with an average lease term of five years (to the earlier of the break clause or the lease end). These new leases reduce our annualised occupancy cash costs by **£11.1m**.

The 62 renewals can be split into two different types of lease: (1) traditional rent leases and (2) 'total occupancy cost' (TOC) leases, where we pay a fixed percentage of turnover to cover rent, business rates and service charge.

The occupancy cost savings (in cash terms[26]) from these lease renewals are summarised in the tables below. For clarity, we have shown TOC leases separately, in order to show the overall saving in rent, rates and service charge combined.

| New rent lease category | No. of leases | Before renewal | After renewal | |
|---|---|---|---|---|
| Fixed rent charge | 36 | £10.5m | £7.4m | - 29% |
| Turnover rent | 1 | £0.3m | £0.3m | - 18% |
| **Total** | **37** | **£10.8m** | **£7.7m** | **- 29%** |

| Total occupancy (TOC) leases | | | | |
|---|---|---|---|---|
| Total occupancy lease (rents, rates and service charge) | | | £18.3m | |
| Previous rent | | £15.4m | | |
| Previous rates and service charge | | £10.9m | | |
| **Total occupancy - rent, rates and service charge** | **25** | **£26.3m** | **£18.3m** | **- 30%** |

| TOTAL COMBINED LEASE RENEWALS | | | | |
|---|---|---|---|---|
| **Total lease renewals** | **62** | **£37.1m** | **£26.0m** | **- 30%** |

In addition to the occupancy cost reductions detailed above, we received **£6m** from capital contributions and rent free periods. We remain committed to ensuring that all our stores are a credit to our brand, so landlord contributions will be more than offset by the £21m we intend to spend upgrading the stores where we have renewed leases.

## Outstanding Lease Commitments

At the end of January 2023, our average lease commitment (weighted by value) was 4.7 years, compared with 4.9 years at the same time last year. 50% of our store leases (by value) will expire or break within 3.9 years and 91% within the next ten years.

## Forecast Lease Renewals in the Year Ending January 2024

We anticipate renewing 75 store leases and based on our latest negotiations we expect to reduce our occupancy cash costs by c.£8.9m (-34%). The average lease term (to the earlier of the break clause or lease end) is expected to be 4.1 years.

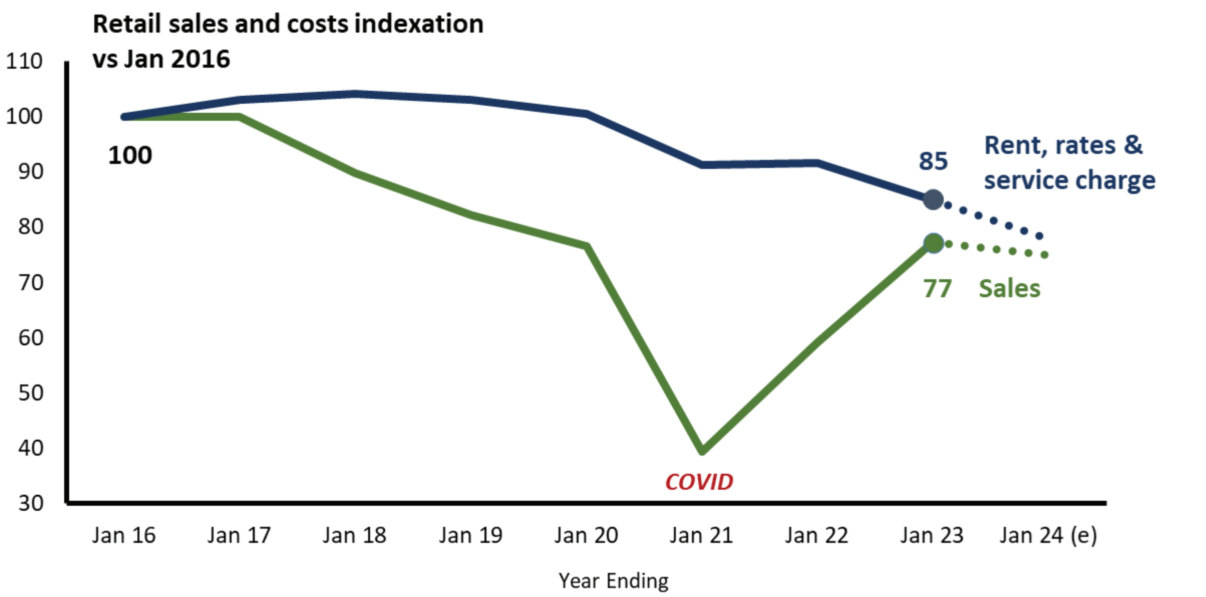
[26] Note that the savings given here are the actual rents payable rather than IFRS 16 right-of-use asset depreciation.

## Long Term View of Retail Sales and Occupancy Costs

In recent years we have highlighted the challenge to Retail's profitability from rent, rates and service charge costs during a time when Retail sales declined each year. The graph below shows the change in Retail's sales and annualised occupancy costs (rent, rates[27] and service charge), indexed to January 2016, and illustrates the progress made on costs to January 2023 and our forecast for the year ahead.

This reduction in occupancy costs (15% lower than in 2016) shows the positive impact from rent reductions, lower business rates and the shift away from leases that previously attracted a fixed rent, rates and service charge costs to a variable 'total occupancy cost' (TOC) arrangement with landlords.

**Occupancy Costs Catching up with Reality**




[27] Business rates in the year ending January 2021 include rates relief received during COVID, when stores were closed.

## RETAIL SPACE

The year-on-year change in store numbers and square footage to January 2023 is set out below.

| | Store numbers | NEXT Sq. ft. (k) | Concessions Sq. ft. (k) | Total Sq. ft. (k) |
|---|---|---|---|---|
| **January 2022** | **477** | **7,980** | **421** | **8,401** |
| Mainline store reconfigurations | + 0 | - 22 | + 61 | + 39 |
| Mainline closures | - 17 | - 240 | - 4 | - 244 |
| Clearance stores | + 6 | + 49 | + 1 | + 50 |
| **January 2023** | **466** | **7,767** | **479** | **8,246** |
| Change | - 11 | - 213 | + 58 | - 155 |
| Change % | - 2.3% | - 2.7% | + 13.8% | - 1.8% |

### Mainline Closures

We closed 17 mainline stores this year, 11 of which are in locations we assessed as no longer being viable, where we forecast that the store would not achieve our target margin on almost any terms. Four store closures were due to them being merged into another local, larger store and the other two are a result of being unable to agree acceptable new terms with landlords. The table below sets out the profitability and turnover of stores falling into each category of closure.

| Reason for store closure | No. of stores | Store turnover | Store profit | Store profit % |
|---|---|---|---|---|
| Location not viable | 11 | £18.2m | £0.4m | 2.1% |
| Merged two stores into one site | 4 | £10.3m | £1.2m | 11.7% |
| Failure to agree acceptable terms | 2 | £7.3m | £1.7m | 23.0% |
| **Total closed stores** | **17** | **£35.8m** | **£3.3m** | **9.1%** |

### Clearance Stores

This year we closed one Clearance store and opened seven new Clearance stores with an average lease term (to the earlier of break or lease end) of 2.4 years. We have increased the number of Clearance stores in response to the return of Sale stock levels to pre-pandemic norms. The rental charge in all these new clearance stores is linked to store turnover, with three of the seven leases being TOC deals.

### Concessions

This year we increased the space occupied by concessions in our retail stores by +58k square feet, with brands including Bath & Body Works, Mamas & Papas, GAP and Victoria's Secret. In total, concessions now occupy 6% of our total Retail space.

In the year ahead we expect to reallocate the space currently occupied by 25 Paperchase concessions (21k square feet) with minimal impact on profitability.

# NEXT ONLINE

## HEADLINES

- Full price sales were up +42% versus 2019/20 (i.e. pre-COVID).
- Total sales (including markdown sales) were up +40% versus 2019/20.
- Operating profit (including lease interest) was £457m, up +11% versus 2019/20.
- Net margin reduced from 19.2% in 2019/20 to 15.2%. The reduction was mainly due to the higher participation of our lower margin LABEL and Overseas sales, higher warehouse and distribution costs and increased spend on technology costs. Detailed margin analysis is given on page 37.

***A Note on Lease Interest and Online Margins***

Our Online margin analysis now includes the cost of lease interest that is attributable to the Online business. We have restated[28] margins for January 2022 and January 2020 to be on the same basis. This is consistent with how we report the Retail margins on page 30.

We have made this change because lease interest costs in our Online business are now more material, at £10m in the year to January 2023 compared with £4m in January 2020. This increase is due to the new leases agreed during the last three years, which include the sale and leaseback of a warehouse complex and our new Elmsall 3 warehouse.

## SUMMARY OF ONLINE SALES, PROFIT AND MARGIN

The table below summarises total sales and profit for our Online business (which includes NEXT Brand UK, LABEL and Overseas), compared to last year and three years ago.

| £m | Jan 2023 | Jan 2022 | 1 year var % | Jan 2020 | 3 year var % |
|---|---|---|---|---|---|
| Total sales | 3,007 | 3,065 | - 2% | 2,147 | +40% |
| Operating profit | 467 | 604 | - 23% | 417 | +12% |
| *Lease interest charge* | *(10)* | *(9)* | *+11%* | *(4)* | *+158%* |
| ***Online profit including lease interest*** | ***457*** | ***595*** | ***- 23%*** | ***413*** | ***+11%*** |
| *Online margin including lease interest* | *15.2%* | *19.4%* | | *19.2%* | |

## CONTENTS OF THIS SECTION

This part of the document includes the following sections:



[28] Under IFRS 16, lease interest is reported within the interest line of the P&L. There is no change to Group profit from this restatement.

## FULL PRICE SALES BY DIVISION

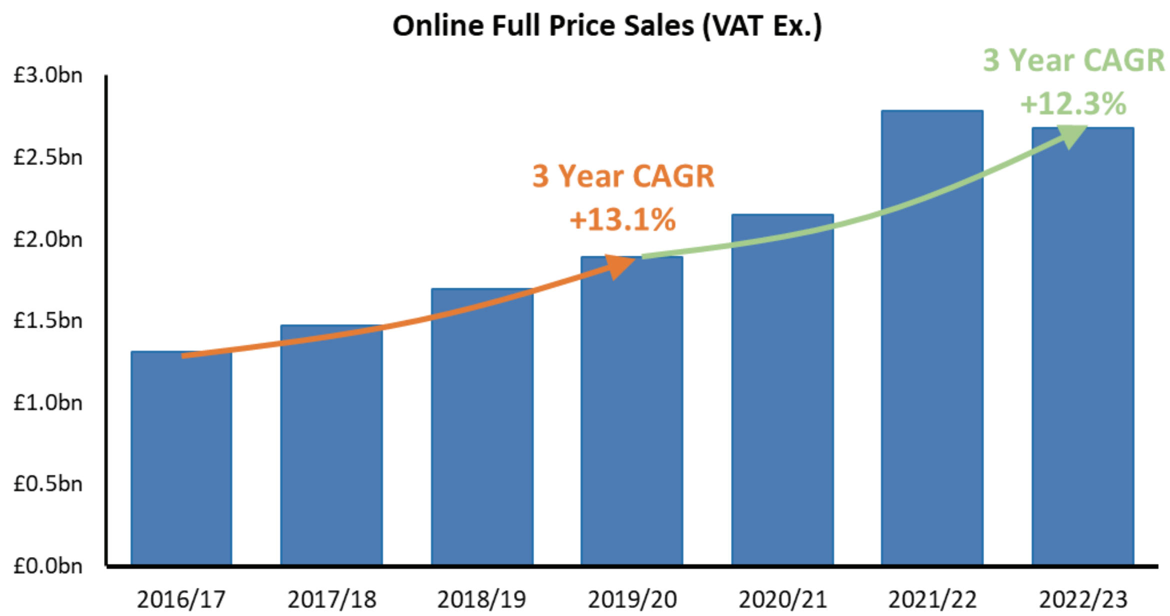
Full price sales compared to three years ago were up **+42%**, representing a compound annual growth rate (CAGR) of **+12.3%**. Online sales experienced a -4% decline against last year, but this figure is distorted by the surge in Online sales during last year's ten-week lockdown and subsequently by consumer reluctance to return to stores as the pandemic rumbled on.

Excluding Russia and Ukraine, Online full price sales were down -2% versus last year and up +44% versus three years ago.

| Full price sales £m | Jan 2023 | Jan 2022 | 1 year var % | Jan 2020 | 3 year var % |
|---|---|---|---|---|---|
| NEXT Brand UK | 1,221 | 1,360 | - 10% | 1,022 | +19% |
| LABEL UK | 869 | 777 | +12% | 434 | +100% |
| ***Total UK Online*** | ***2,090*** | ***2,137*** | ***- 2%*** | ***1,456*** | **+44%** |
| Overseas (nextdirect.com) | 463 | 543 | - 15% | 398 | +16% |
| Overseas aggregators | 126 | 107 | +17% | 38 | +232% |
| ***Total Overseas*** | **589** | **650** | - 9% | **436** | **+35%** |
| **Total Online full price sales** | **2,679** | **2,787** | **- 4%** | **1,892** | **+42%** |
| *Excluding Russia and Ukraine* | | | *- 2%* | | *+44%* |

## Full Price Sales in Context

The chart below shows sales over the last seven years. Online's CAGR was +13.1% from 2016 up to the start of the pandemic, and +12.3% over the last three years.



# CUSTOMER ANALYSIS

## Growth in Customer Numbers and Average Spend Per Customer

Customers can be split into three distinct groups:

- **UK credit customers** who pay through a NEXT credit account[29] (next**pay** or next**3step**).
- **UK cash customers** who pay using credit, debit or other tender types.
- **Overseas** customers who shop on our international websites.

The average number of active[30] Online customers in the last year was 8.1m**,** up +35% versus three years ago, but down -1% versus last year. The table below shows a three year comparison of average customer numbers, sales per customer and their total full price sales values. For completeness, the table also includes sales achieved through our Overseas third-party aggregators, where we do not have visibility of customer numbers.

| | Average customers | | Full price sales per customer | | Full price sales value | | |
|---|---|---|---|---|---|---|---|
| **Full year** | **Jan 23** | **vs Jan 20** | **Jan 23** | **vs Jan 20** | **Jan 23** | **Jan 20** | **vs Jan 20** |
| UK Credit | 2.8m | +10% | £487 | +11% | £1,381m | £1,131m | +22% |
| UK Cash | 3.6m | +78% | £198 | +23% | £709m | £325m | +118% |
| **UK Total** | **6.4m** | **+40%** | **£326** | **+3%** | **£2,090m** | **£1,456m** | **+44%** |
| Continuous overseas | 1.6m | +37% | £280 | - 7% | £450m | £354m | +27% |
| Russia & Ukraine | 0.1m | - 55% | £127 | - 36% | £13m | £44m | - 71% |
| **Total ex. aggregators** | **8.1m** | **+35%** | **£314** | **+2%** | **£2,553m** | **£1,854m** | **+38%** |
| Aggregators | | | | | £126m | £38m | +232% |
| **Total** | | | | | **£2,679m** | **£1,892m** | **+42%** |

## Sales Per Customer

### *UK sales per customer*

In the UK, sales per credit customer increased by +11% versus three years ago and cash customers increased by +23%. We believe this has been driven by the increasing breadth of our offer. Credit customers spend over twice as much as our cash customers, resulting in an overall spend per customer increase of +3% in the UK.

### *Overseas sales per customer*

In our continuous Overseas business, sales per customer decreased by -7% versus three years ago. This decline is due to a higher proportion of our customers being *new* customers, who typically spend *less* than those who are more established.

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[29] Both NEXT credit offers are authorised and regulated by the FCA.

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

# ONLINE PROFIT AND NET MARGIN

## Online Margin Analysis - Three Year Comparison

Overall Online margin (including lease interest) in the year was 15.2%, down from 19.2% three years ago. The margin impact of major cost categories is summarised below.

| **Net margin (including lease interest) on total sales to January 2020** | | **19.2%** |
|---|---|---|
| **Bought-in gross margin** | A higher participation of lower margin third-party LABEL and Overseas sales reduced margin by -2.5% and higher freight costs eroded margin by -0.3%. | - 2.8% |
| **Markdown** | Surplus stock grew at a slower rate than full price sales, improving margin. This benefit more than offset the impact of slightly lower clearance rates. | +0.2% |
| **Warehousing & distribution** | Margin reduced for the following reasons:<br>● Inflationary cost increases, mainly in wages (-1.5%), fuel and energy (-0.3%)<br>● International parcel surcharges and EU admin. fees (-0.3%)<br>● Increased costs from our new boxed warehouse (Elmsall 3), higher depreciation and other occupancy costs (-0.6%).<br>These cost increases were partially offset by operational savings from handling fewer units, relative to sales, due to higher average selling prices (+1.2%). | - 1.5% |
| **Marketing & photography** | We stopped printing catalogues in 2020, which improved margin by +1.4% and photography costs have not increased in line with sales (+0.4%). This was partly offset by increased spending on digital marketing (-0.6%). | +1.2% |
| **Technology and central costs** | Spending on software development and maintenance has increased by +90% versus 2019, compared to the sales increase of +40%. | - 1.1% |
| **Net margin (including lease interest) on total sales to January 2023** | | **15.2%** |

## Net Margin by Online Division

The table below sets out the net margins by Online division (NEXT Brand UK, LABEL UK and Overseas). Please note that net margins for January 2022 and January 2020 have been restated to include lease interest.

| Online division | Total sales £m | Profit £m | Jan 2023 margin % | Jan 2022 margin % | Jan 2020 margin % |
|---|---|---|---|---|---|
| NEXT Brand UK | 1,377 | 273 | **19.9%** | 24.6% | 22.0% |
| LABEL UK | 1,005 | 130 | **12.9%** | 16.0% | 15.4% |
| Overseas | 625 | 54 | **8.6%** | 12.1% | 16.5% |
| **Total Online** | **3,007** | **457** | **15.2%** | **19.4%** | **19.2%** |

### *Margin movements for NEXT Brand UK*

**One year comparison**

Margin increased to 24.6% last year, during the pandemic, mainly due to unusually low returns rates and lower markdown costs (due to stock shortages). Those margin gains reversed out during the last twelve months as return rates and surplus stock reverted to more normal levels.

**Three year comparison**

The -2.1% reduction in margin against *three* years ago is largely due to the following four factors:

(1) Inflationary costs in warehouse and distribution eroded margins by -1.7%.

(2) Increased spend on Technology eroded margins by -1.5%.

(3) Higher freight costs eroded margins by -0.4%.

(4) Net savings in print, photography and digital marketing improved margins by +1.5%.

### *Margin movements for LABEL UK and Overseas*

Further details on margin movements for LABEL UK and Overseas businesses can be found in the next two sections.

### *Online margin by division for the year ahead*

Our expected Online net margins, by division, for the year to January 2024 are set out below.

The -2.4% percent reduction in our UK margin is mainly the result of (1) inflationary cost increases, mainly in wages, (2) increased occupancy costs arising from the opening of our new boxed warehouse and (3) additional depreciation on new warehouse mechanisation and technology.

| Online net margins by division | Jan 2024 (e) | Jan 2023 |
|---|---|---|
| NEXT Brand UK | 17.5% | 19.9% |
| LABEL UK | 11.7% | 12.9% |
| Overseas | 12.0% | 8.6% |
| **Online net margin** | **14.3%** | **15.2%** |

# FOCUS ON LABEL

## Overview

LABEL consists of the sale of *all* the non-NEXT branded products sold through NEXT's websites[31]. In the year to January 2023, at £1bn, LABEL's total Online sales (including markdown sales) accounted for one third of our Online business and 19% of Group turnover. LABEL's full price sales have doubled over the last three years, achieving growth through four different types of business. In this section, we provide insight into LABEL's sales and profit margins for each business model.

## LABEL's Four Business Models

Each business model has different characteristics, in terms of (1) who is responsible for the design, (2) who sources and manufactures the product and (3) who takes the stock risk. These are summarised in the table below along with the net margins of each business.

| Business model | Design | Sourcing | Stock risk | Examples | 2022/23 Net margin |
|---|---|---|---|---|---|
| *3rd party Brands sold on **Commission*** | 3rd Party | 3rd Party | 3rd Party | Fat Face, River Island Boss, Reiss | *10.9%* |
| *3rd party Brands purchased **Wholesale*** | 3rd Party | 3rd Party | NEXT Group | Nike, Adidas, Superdry | *14.4%* |
| ***Licensing** and collaborations* | 3rd Party | NEXT Group | NEXT Group | Baker by Ted Baker, Myleene Klass | *14.9%* |
| ***Wholly-owned** brands* | NEXT Group | NEXT Group | NEXT Group | Lipsy, Love & Roses, Friends Like These | *15.7%* |
| ***TOTAL*** | | | | | ***12.9%*** |

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 full price sales performance, as demonstrated in the table on page 40. The three year growth rate of commission brands is +135%, compared to +41% on wholesale brands. Unsurprisingly, our brand partners are better at selecting and merchandising *their* stock on our website than we are.

Net margins generally increase as the Group takes on more of the workload and risk. The anomaly is the relatively low margins achieved by our high risk/workload wholly-owned brands which, at 15.7%, compares unfavourably with the NEXT brand's 19.9% net margin.

The table below bridges the gap between the margin achieved on the wholly-owned brands and NEXT branded stock. We believe that we have an opportunity to improve margins in this area, through addressing high levels of faulty and damaged stock and, as sales increase, reducing the burden of fixed central costs.

| NEXT UK 2022/23 net operating margin | Comments | 19.9% |
|---|---|---|
| Bought-in gross margin | Better margins on high fashion lines | +2.0% |
| Faulty and damaged | Higher returning fashion lines | - 0.9% |
| Product teams and central overheads | Fewer economies of scale | - 5.3% |
| **Wholly-owned brands net operating margin** | | **15.7%** |

[31] LABEL does not include branded products sold through Total Platform.

# Full Price Sales Analysis

### *Growth by business model*

The table below sets out full price sales by each LABEL business model, against last year and three years ago. Wholly-owned brands and licensing accounted for 25% of the growth against three years ago.

| Full price sales category £m | Jan 2023 | 1 year var % | 3 year var % |
|---|---|---|---|
| Third-party brands (commission) | 409 | +14% | +135% |
| Third-party brands (wholesale) | 311 | - 3% | +41% |
| **Total third-party brands** | **720** | +6% | **+83%** |
| Licensing and collaborations | 39 | +58% | - |
| Wholly-owned brands | 110 | +50% | +176% |
| **Total LABEL full price sales** | **869** | +12% | **+100%** |

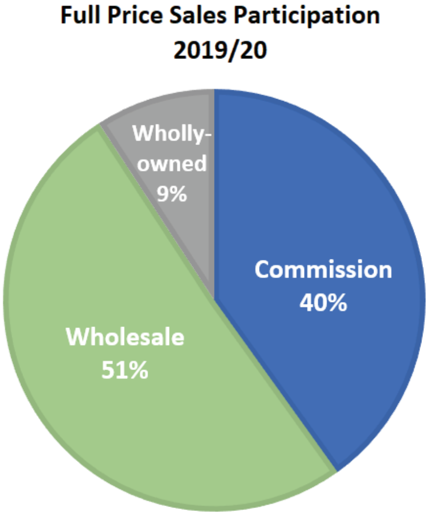
### *Growth from existing and new brands*

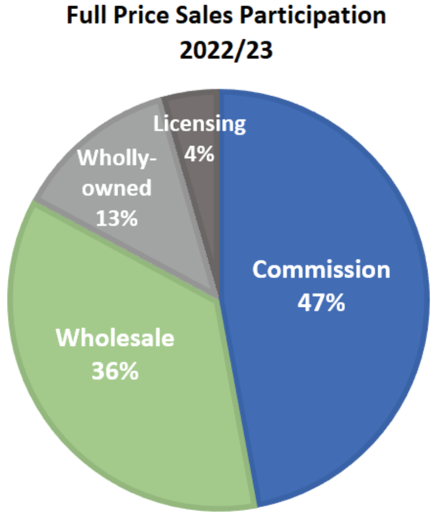
The table below explains the contribution new brands have made to LABEL's three year growth. New brands accounted for 56% of LABEL's growth, of which 15% was delivered by new wholly-owned brands and licensing.

| Contribution to 3 year sales growth | New brands | Continuous brands | Total |
|---|---|---|---|
| Third-party brands | +41% | +34% | +75% |
| Licensing and collaborations | +9% | | +9% |
| Wholly-owned brands | +6% | +10% | +16% |
| **Total LABEL full price sales** | **+56%** | **+44%** | **+100%** |

### *The shape of LABEL's sales - a three year view*

The pie charts below show the participation of full price sales by business model, for 2019/20 and 2022/23.



### *Full price sales by product category*

Compared to *three years ago*, we have seen strong growth across all LABEL product categories, with Clothing, Home and Beauty growing faster than Sportswear as a result of the increases in product offer: a combination of adding new brands and wider choice within existing brands.

The table below shows the increase in sales against last year and three years ago. The variances to *last year* are explained by the sharp reversal of lockdown trends which favoured Home and Sportswear.

| Full price sales by category £m | Jan 2023 | 1 year var % | 3 year var % |
|---|---|---|---|
| Clothing | 601 | +25% | +119% |
| Sports | 138 | - 13% | +31% |
| Home | 84 | - 8% | +125% |
| Beauty | 46 | +0% | +171% |
| **Total full price sales** | **869** | **+12%** | **+100%** |

## Licensing and Collaborations

Under a licensing agreement, a third-party brand (the licensor) supplies NEXT (the licensee) with design inspiration and branding. NEXT sources and purchases the stock, which is held at our risk and the licensor earns a royalty on sales.

We also collaborate with third-parties who provide prints that we use on products that are designed by the NEXT team. We have included these sales in the analysis below.

Full price sales in the year to January 2023 were £65m (£39m in LABEL UK, £12m Online Overseas and £14m in NEXT's Retail stores). The table below shows how this is split across our product categories.

| Licensing and collaborations<br>Full price sales (VAT ex.) £m | Jan 2023 | Jan 2022 | Var % |
|---|---|---|---|
| Adult clothing and accessories | 27 | 14 | +96% |
| Childrenswear | 30 | 23 | +30% |
| Home | 8 | 6 | +27% |
| **Total full price sales** | **65** | **43** | **+50%** |
| ***Split as:*** | | | |
| Licensing | 50 | 34 | +45% |
| Collaborations | 15 | 9 | +71% |

### *Outlook for licensing and collaborations sales*

In the year ahead, we expect to take on seven new licences and forecast full price sales to grow by +32% to £85m.

| Full price sales (VAT ex.) £m | Jan 2024 (e) | Jan 2023 | Var % |
|---|---|---|---|
| Online LABEL UK | 55 | 39 | +43% |
| Online Overseas | 15 | 12 | +28% |
| Retail | 15 | 14 | +5% |
| **Total** | **85** | **65** | **+32%** |

## LABEL Margin - History and Outlook

The table below shows net margins for each of the four business models within LABEL compared to last year and three years ago.

| Business model | Jan 2023 margin % | Jan 2022 margin % | Jan 2020 margin % |
|---|---|---|---|
| Third-party brands (commission) | 10.9% | 13.1% | 14.8% |
| Third-party brands (wholesale) | 14.4% | 17.8% | 16.6% |
| **Total third-party brands** | **12.4%** | **15.4%** | **15.8%** |
| Licensing and collaborations | 14.9% | 18.1% | - |
| Wholly-owned brands | 15.7% | 20.7% | 12.4% |
| **Total LABEL margin %** | **12.9%** | **16.0%** | **15.4%** |

### *Focus on third-party brands margin erosion*

Last year, in the aftermath of the pandemic, margins were flattered by unusually low returns rates and lower markdown costs (arising as a result of stock shortages). However, the 3.4% drop in the net margins of our third-party branded business against *three years ago* requires some explanation. The gap is explained in the table below.

| **Jan 2020 net margin of third-party brands** | **15.8%** |
|---|---|
| Higher participation of lower margin brands and reduced commission rates | - 1.4% |
| Improved wholesale bought in gross margins offset by higher surplus | +0.4% |
| Inflation in warehouse and distribution costs | - 2.0% |
| Increased spend in technology | - 1.2% |
| Catalogue savings, offset partially by increased digital marketing | +0.8% |
| **Jan 2023 net margin of third-party brands** | **12.4%** |

### *Outlook for LABEL margins in the year ahead*

As we explained in our Half Year Report in September, we are focussed on a number of initiatives that will improve LABEL's margin in the year ahead. However, we anticipate that these margin improvements will be more than offset by inflationary cost increases. The following table walks forward our achieved net operating margin in 2022/23 to our anticipated margin in 2023/24.

| **Jan 2023 net operating margin** | **12.9%** |
|---|---|
| Control of markdown costs | +0.6% |
| Renegotiated commission rates on some low profitability brands | +0.5% |
| Impact of removing low profitability products | +0.3% |
| Inflationary costs in warehouse and distribution costs | - 1.1% |
| Technology costs | - 0.7% |
| Inflationary cost increases, mainly in wages | - 0.8% |
| **Jan 2024 net operating margin (e)** | **11.7%** |

# FOCUS ON OVERSEAS

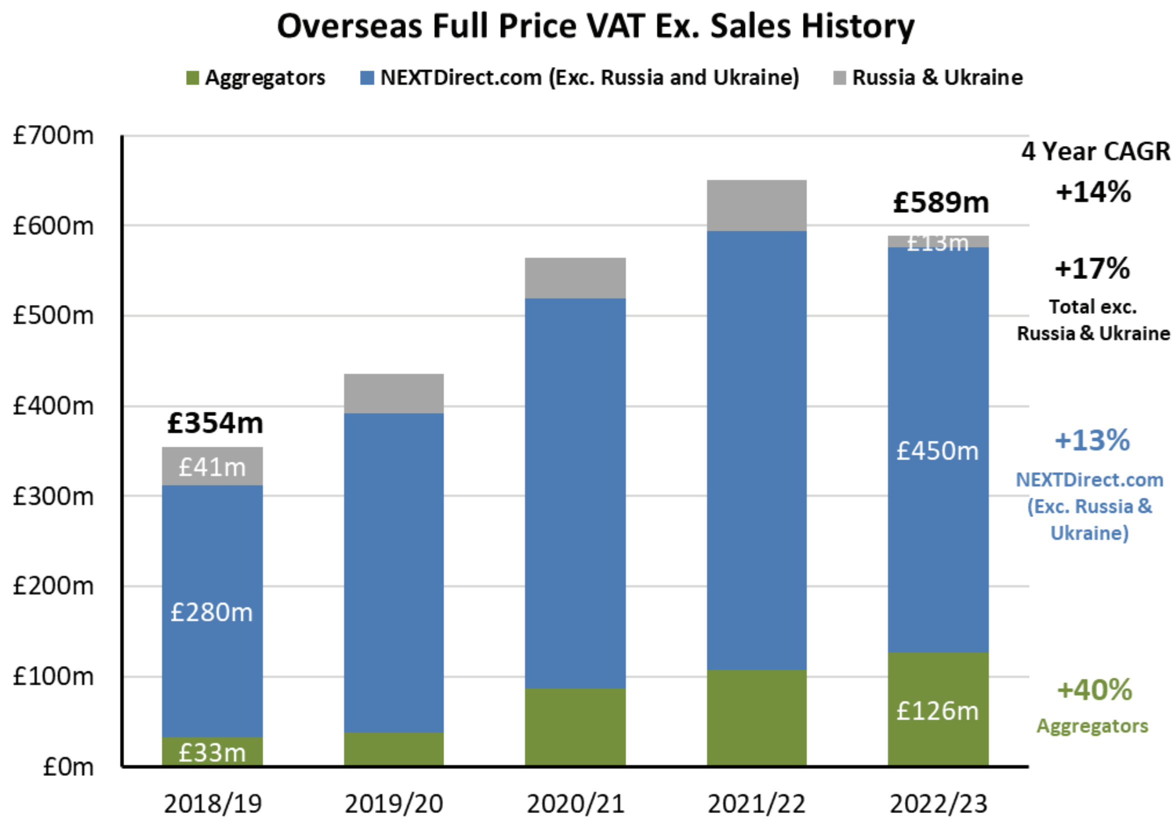
## Sales Performance

The table below sets out the sales performance against last year and three years ago. The comparison with last year is unfavourable because, last year, online trade benefited from various retail store lockdowns in force across the globe.

| Online Overseas VAT Ex. sales | Sales £m Jan 2023 | Versus Jan 2022 | Versus Jan 2020 |
|---|---|---|---|
| Total sales (including markdown) | 625 | - 7% | +37% |
| **Full price sales** | **589** | - 9% | **+35%** |
| *Full price sales (excluding Russia and Ukraine)* | *576* | *- 3%* | *+47%* |

***Overseas sales - a five year history***

Over the last five years, sales in our Overseas Online business have grown through our own websites (nextdirect.com) and third-party aggregators. The chart below sets out the full price sales achieved through both channels over the last five years. It demonstrates the increasing contribution aggregators have made to growth. Aggregators now account for 21% (£126m) of our Overseas full price sales.




The compound annual growth rate (CAGR) in full price sales in this period has been +14% (+17% excluding Russia and Ukraine).

### *Full price sales by region*

The table below shows the participation of our sales by region and demonstrates that the vast majority of our sales overseas come from Europe and the Middle East. Much of our European business is serviced by our German hub and we are actively investigating opening a hub in the Middle East.

| Region | No. of countries | % of full price sales | Jan 2023 £m |
|---|---|---|---|
| Europe | 34 | 52% | 303 |
| Middle East | 12 | 35% | 206 |
| Asia | 12 | 7% | 43 |
| Americas and Australia | 8 | 6% | 37 |
| **Total full price sales** | **66** | **100%** | **589** |

## Profit Performance

The table below sets out the profit and margins achieved compared to last year and three years ago. The main reasons for the decline in margin compared to 2019/20 are also set out below.

| Online Overseas operating profit | Jan 2023 | Jan 2022 | Jan 2020 |
|---|---|---|---|
| Profit £m | 54 | 81 | 65 |
| Net margin % | 8.6% | 12.1% | 16.5% |

| **Overseas net margin on total sales to January 2020** | | **16.5%** |
|---|---|---|
| **Duty & import VAT** | Costs increased largely due to the introduction of duty & import VAT charges in many Middle East countries. | - 2.4% |
| **Aggregator participation & margins** | Erosion in operating margin from aggregator sites, along with their increasing sales participation. | - 1.8% |
| **Delivery costs** | This is mainly the result of higher air freight costs and inflationary increases in UK warehousing costs. | - 1.5% |
| **Technology** | Investment in modernising our core systems | - 1.1% |
| **Surplus** | Surplus stocks in overseas countries grew faster than sales and clearance rates reduced. | - 1.1% |
| **Overseas net margin on total sales to January 2023** | | **8.6%** |

### *Progress to date on improving overseas margins*

At the half year we detailed some of the measures we were planning to improve overseas profitability. We have concentrated on measuring profitability on an item-by-item and territory-by-territory basis, to pinpoint unprofitable products. These are typically items with higher returns rates and lower selling prices. We are also renegotiating numerous delivery agreements, as underlying distribution costs begin to return to pre-pandemic levels.

In the second half, margin improved to 9.8% and in the year ahead we are planning for margin to recover further, to around 12%.

# NEXT FINANCE

**Unlike the analysis in the Online and Retail sections of this document, the comparisons used for sales and profit in this section are given against *LAST YEAR*.** We believe this provides a more meaningful understanding of the performance of our Finance business because retail lockdown had much less impact on the performance of the Finance business than it had on the other trading businesses.

## HEADLINES

- Interest income was up +10%, broadly in line with the increase in the average customer receivables balance.
- Net profit[32] of £171m was up +14%.
- Customer defaults remain lower than pre-COVID levels and payment rates remain higher than pre-COVID levels, both continuing the trend seen at the half year.

## FINANCE PROFIT & LOSS SUMMARY[33]

| £m | | Jan 2023 | Jan 2022 | Var % |
|---|---|---|---|---|
| *Credit sales* | | *2,035* | *1,977* | *+3%* |
| ***Average customer receivables*** | *note 1* | ***1,179*** | ***1,062*** | ***+11%*** |
| Interest income | *note 2* | 274 | 249 | +10% |
| Bad debt charge | *note 3* | (26) | (27) | - 3% |
| Overheads | *note 4* | (43) | (42) | +3% |
| **Profit before cost of funding** | | **205** | **180** | **+14%** |
| Cost of funding | *note 5* | (34) | (31) | +11% |
| **Net profit** | | **171** | **150** | **+14%** |
| ROCE (after cost of funding) | | 14.5% | 14.1% | |
| Closing customer receivables | | 1,255 | 1,163 | +8% |

The following paragraphs give further explanation of the movements in each line of the Finance P&L.

[32] The Finance business now includes all the Finance profits generated from Lipsy sales. Half of this profit was previously reported within the Lipsy division and shown as a cost in NEXT Finance overheads (2023: £11.7m, 2022: £7.7m). See page 21 and Appendix 1 on page 62 for further detail.

[33] Rounding differences are not adjusted in the table.

*Note 1  Customer receivables - recovering to pre-pandemic levels*

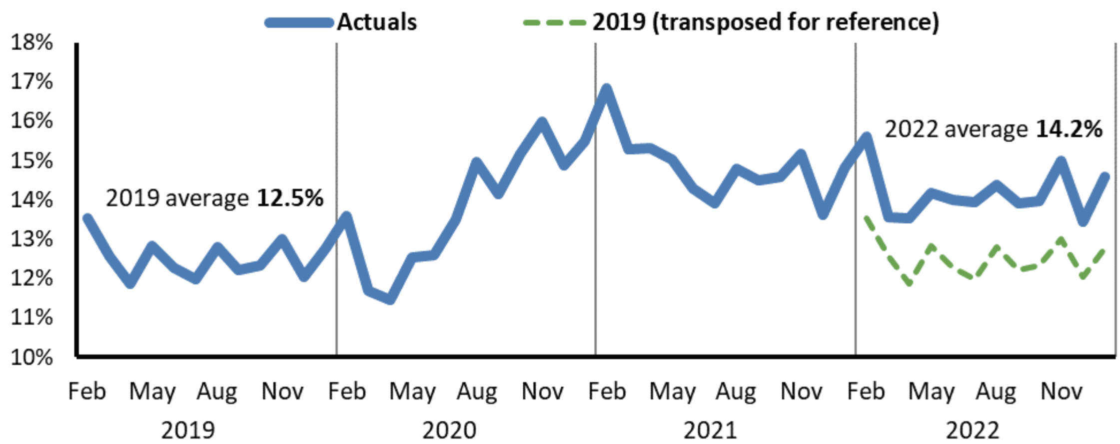
Our average customer receivables balance was up +11% compared to last year.  The majority of this increase was due to customers building back their balances after the pandemic, rather than a growth in credit sales (which were only up +3%).

**A return to more normal payment rates**

The graph below shows the percentage of outstanding balances paid back each month since 2019. The payment rate is an indirect measure of the financial health of consumer balance sheets; the more our customers pay back each month, the less pressure there is likely to be on their finances.

Customers significantly increased the rate at which they paid down their balances from May 2020 as their other expenditure decreased during the first COVID lockdown.  As the economy reopened, from March 2021, customers' monthly payments fell back to more normal levels, albeit they have remained above pre-COVID levels.  Over the coming year, we expect payment rates to reduce to levels closer to, but still above, the 2019 average.

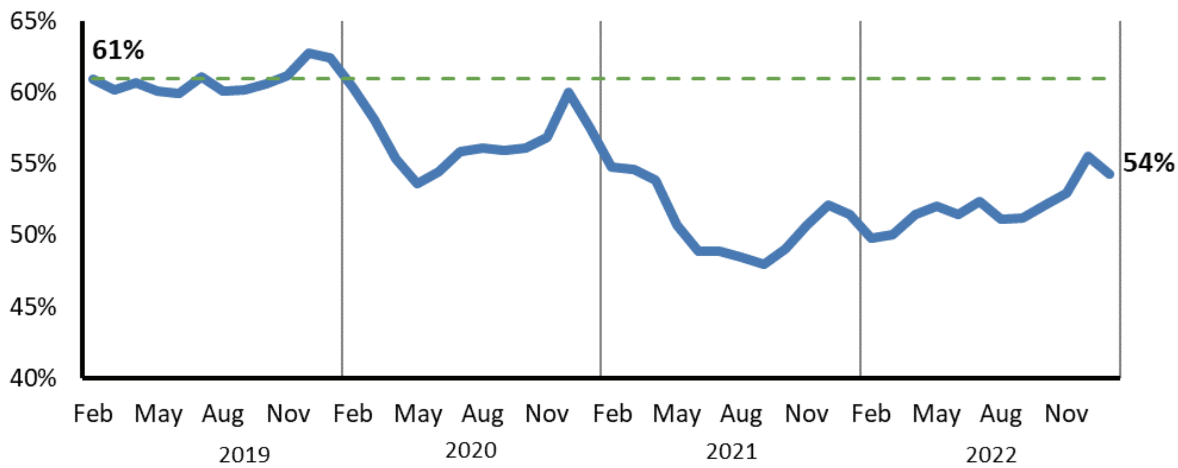
**Monthly Payment as a Proportion of Customer Balances**




**Net customer receivables in perspective**

The graph below shows net customer receivables as a percentage of the previous twelve months' credit sales.  This is another indirect measure of the health of consumer balance sheets (the lower the number, the less financial pressure there is likely to be).  It can be seen that customer balances relative to sales have continued on an upward trajectory over the course of 2022, but they remain comfortably below pre-pandemic levels.

**Net Customer Receivables as a Proportion of 12 Month Rolling Credit Sales**



*Note 2  Interest income*

Interest income was up +10% versus last year, broadly in line with the +11% growth in average customer receivables.

*Note 3  Bad debt charge and default rates*

**Bad debt charge**

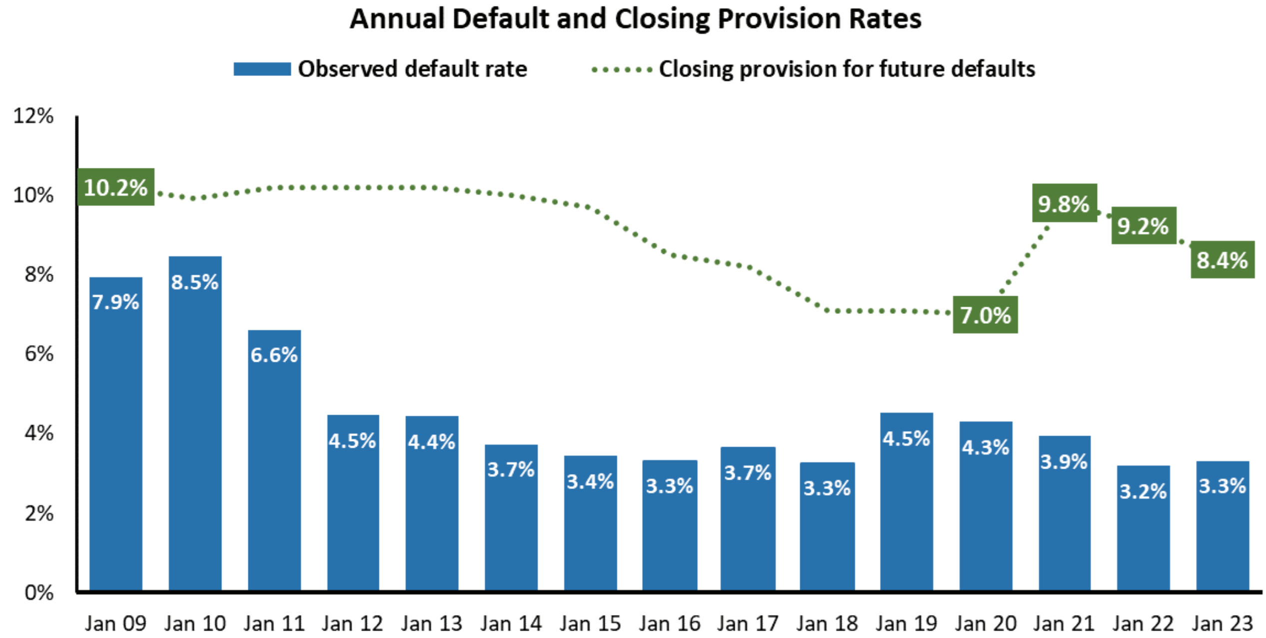
The bad debt charge of £26m was £1m lower than last year, despite the fact that credit sales rose in the period and would normally result in an overall increase in bad debt charge.  The unexpected decline in bad debt is explained by a £2m provision release in the first half of the year.

| **Bad debt walk forward** | **£m** |
|---|---|
| **Bad debt charge January 2022** | **(27)** |
| Higher credit sales (+3%) | (1) |
| **Bad debt charge before provision release** | **(28)** |
| Provision release (mainly COVID) | 2 |
| **Bad debt charge January 2023** | **(26)** |

**Current default rates in context**

The chart below shows:

- Observed annualised default rates[34] since 2009 (blue bars).  The default rate in 2022/23 of 3.3% is marginally higher than 2021/22 but in line with the lower end of observed historical rates.
- The provision for future defaults (green dotted line) remains above pre-COVID rates and makes allowance for a material deterioration in defaults.




[34] Default rates are net of expected recoveries and presented as a percentage of the average customer receivables balance.

***Note 4  Overheads***
Overheads were up +3% versus last year, mainly due to increased spending on Technology.

***Note 5  Cost of funding***
The cost of funding is an internal interest recharge from the Group based on the assumption that 85% of customer receivables are funded by debt lent by the Group to the NEXT Finance business. The year on year growth of +11% is in line with the growth in average customer receivables.

## POTENTIAL IMPACT OF DETERIORATING CONSUMER ENVIRONMENT

In our Half Year Report, we outlined a number of potential effects on our Finance business of a deterioration in consumer finances:

- Lower spending (which would decrease balances).
- Increased use of our credit facility versus cash payments (which would increase balances).
- Extended payment times (which would increase balances).
- Increased arrears and default rates (which would reduce profits).

Six months on, we have seen little further evidence of any deterioration. Spending has been resilient, payment rates have decreased but remained above pre-pandemic levels, and arrears and default rates have remained at relatively low levels. At present, there is little evidence of distress in our customer receivables book. As the effects of mortgage rate rises start to flow through into household budgets and energy bills remain elevated, we may start to see a departure from the current levels of stability. The risk of this has been provided for in our bad debt provisions, which allow for a significant increase in default rates compared to today's level.

## OUTLOOK FOR THE FULL YEAR TO JANUARY 2024

In the year ahead, we anticipate that NEXT Finance will generate a profit (before cost of funding) of **£219m**, which would be up +7% on 2022/23. After the cost of funding recharge, we anticipate net profit of **£172m** which would be up +1% versus 2022/23.

| **£m** | | **Jan 2024 (e)** | **Jan 2023** | **Var %** |
|---|---|---|---|---|
| *Credit sales* | | *2,008* | *2,035* | *- 1%* |
| *Average customer receivables* | *Note 1* | *1,242* | *1,179* | *+5%* |
| Interest income | *Note 2* | 297 | 274 | +8% |
| Bad debt charge | *Note 3* | (31) | (26) | +20% |
| Overheads | *Note 4* | (47) | (43) | +8% |
| **Profit before cost of funding** | | **219** | **205** | **+7%** |
| Cost of funding | *Note 5* | (46) | (34) | +35% |
| **Net profit** | | **172** | **171** | **+1%** |
| ROCE (after cost of funding) | | 13.9% | 14.5% | |
| Closing customer receivables | | 1,345 | 1,255 | +7% |

***Note 1  Customer receivables***

We expect average customer receivables to rise by +5%, close to the increase in the year end debt, which is forecast to rise by +7% to £1,345m.

***Note 2  Interest income***

Underlying interest income is expected to increase by +8%, this is more than the increase in average receivables (up +5%). The additional growth is due to a 1%[35] increase in the APR charged on next**pay** accounts, effective from 29 March 2023.

***Note 3  Bad debt charge***

The bad debt charge is forecast to increase by +20% versus last year. Underlying bad debt is expected to move in line with credit sales (-1%), but the prior year benefited from (1) net provision releases of £2m and (2) the £3m sale of insolvent debt[36], which had been written-off. We do not expect to repeat this sale in the year ahead.

***Note 4  Overheads***

Overheads are forecast to be up +8% versus last year, due to inflationary cost increases and increased spending on Technology.

***Note 5  Cost of funding***

The cost of funding recharge is expected to increase by +£12m (+35% on last year). Of this, £2m is due to growth in average receivables and the remaining £10m is due to the effect of higher bank interest rates. The funding for the Finance business is provided by the NEXT Group[37] which is forecast to make additional profit of £5m from this lending in the year ahead. This is essentially because expected average Group borrowings of £851m are lower than its expected average lending of £1,056m to the Finance business, as explained in the table below.

| **Group lending to NEXT Finance £m** | **Year ending Jan 2024 (e)** | **Year ending Jan 2023** | **Variance** |
|---|---|---|---|
| *Average Group external borrowing (for reference)* | *851* | *859* | *(8)* |
| *Average NEXT Finance borrowing (for reference)* | *1,056* | *1,002* | *54* |
| *Group underlying net external interest rate* | *4.4%* | *3.4%* | *+1.0%* |
| Interest charged by Group to NEXT Finance | (46) | (34) | (12) |
| Underlying net external interest cost for Group | (37) | (30) | (7) |
| **Group profit on its lending to NEXT Finance** | **9** | **4** | **5** |

35 APR is set to rise from 23.9% to 24.9%.

36 There were similar "non-recurring" recoveries in the year ending January 2022.

37 We assume that the Group funds 85% of the Finance business's receivables, with the balance being funded by the Finance business's notional equity.

# PART FIVE

# TOTAL PLATFORM AND OTHER BUSINESS ACTIVITIES

## TOTAL PLATFORM AND INVESTMENTS

We currently have four clients (Reiss, GAP, Victoria's Secret and Laura Ashley) trading on Total Platform (TP). JoJo Maman Bébé will commence trading on Total Platform in May 2023. We aim to launch MADE.com UK website by August 2023. Joules is scheduled to launch in March/April 2024.

### FINANCIAL PERFORMANCE AND GUIDANCE FOR THE YEAR AHEAD

In the year to January 2023 Total Platform generated **£144.4m** of revenue and **£21.8m** of profit. Sales from continuing partners[38] were **£125.6m** which generated **£22.2m** of profit[39].

#### *Total Platform 'sales'*

Total Platform sales are a combination of two different types of revenue streams:

- The value of our clients' online sales through their Total Platform website (referred to as gross transaction value).
- Revenue from services charged on a 'cost plus' basis, such as retail warehousing and distribution. Cost plus services are charged on the basis of the full cost we incur to provide the service plus a percentage of that cost as a profit margin.

#### *Total Platform and equity investment profit*

Profit was generated through a combination of:

- Total Platform services delivered a profit of **£5.4m**, of which £4.7m was generated from commission on clients' online sales, with the remainder through services provided on a cost plus basis (such as retail distribution and online marketing).
- Equity profit, preference share and loan interest totalling **£16.8m**.

| Continuing clients Total Platform - £m | Jan 2024 (e) | Jan 2023 | Jan 2022 |
|---|---|---|---|
| Gross transaction value of our client sales on the platform | 158.1 | 110.3 | 12.7 |
| Income from services provided on cost-plus basis | 18.8 | 15.3 | 0.0 |
| **TOTAL PLATFORM SALES** | **176.9** | **125.6** | **12.7** |
| *Total Platform profit on continuing activities* | **9.2** | **5.4** | **0.2** |
| *Total Platform margin %* | 5.2% | 4.3% | 1.6% |
| Underlying equity profit | 13.0 | 10.8 | 4.8 |
| Deferred tax asset (historical) | 1.3 | 3.5 | 0.0 |
| Joules equity | (7.0) | (3.0) | 0.0 |
| Preference shares | 4.9 | 4.8 | 2.4 |
| Loan interest | 1.1 | 0.7 | 1.0 |
| **Total Group profit from continuing clients and equity** | **22.5** | **22.2** | **8.4** |

[38] As explained in our Half Year results, our two lowest turnover clients (Childsplay and Aubin) have now transitioned away from Total Platform. This section details the Total Platform trading performance of continuing operations.

[39] Equity profit includes our equity shares of Swoon, Aubin and Sealskinz, which are not on Total Platform.

### *Total Platform margin*

Total Platform achieved a margin on continuing partners of 4.3%, which was higher than our previous guidance but lower than our target of between 5% to 7%. We are planning for margin in the year ahead to be 5.2%.

### *Deferred tax asset (historical)*

One of our acquisitions has access to a deferred tax asset relating to historical trading losses. This means that they can partially offset these losses against their current trading profits. Under equity accounting this benefit is reported in NEXT's pre-tax profits.

### *Joules*

Joules incurred some one-off costs relating to its transition from administration in the year to January 2023, resulting in the business making a £4m loss, of which NEXT's share is £3m. The Joules team is making progress, but we now believe it will take around 12 months to turn the business around as the business adjusts to much lower levels of discounting and promotion. In the year to January 2024, we are forecasting Joules to make a loss. NEXT's share of this loss is £7m.

## TOTAL PLATFORM CLIENTS AND ASSOCIATED EQUITY INVESTMENTS

| Client | Launch date | Equity interest | Description |
|---|---|---|---|
| **Laura Ashley** | Mar 2021 | None | Iconic British Home and fashion brand |
| **Victoria's Secret (UK and Ireland)** | May 2021 | **51%** share of the UK and Ireland franchise in partnership with Victoria's Secret & Co. | Global lingerie, clothing and beauty brand |
| **Reiss** | Feb 2022 | Increased to **51%** in May 2022 in partnership with Warburg Pincus and Reiss family. | Affordable luxury men's and women's apparel brand |
| **GAP (UK and Ireland)** | Aug 2022 | **51%** share of UK and Ireland franchise in partnership with GAP Inc. | US casual fashion brand |
| **JoJo Maman Bébé** | Q2 2023 | **44%** share in partnership with Davidson Kempner. | Specialist premium maternity and baby clothing |
| **MADE.com** | Q3 2023 | **100%** acquisition of brand name, domain names and intellectual property. | Design-led homeware and furniture brand |
| **Joules** | Q1 2024 | **74%** share in partnership with Tom Joule. | British countryside lifestyle fashion brand |

| Discontinued client | End date | Equity interest | Description |
|---|---|---|---|
| **Childsplay** | Feb 2023 | None | Luxury childrenswear retailer |
| **Aubin** | Sept 2022 | **29%**[40] which we are retaining | Premium authentically British menswear brand |

[40] Our equity interest in Aubin was originally 33%, which will reduce to 29% following the completion of a recent equity raise.

# OTHER BUSINESS ACTIVITIES

The profits and losses in the year from other business activities, including our other Group trading companies and non-trading activities, are summarised below along with last year, three years ago (pre-COVID) and our guidance for the year ahead.

There are three large and non-recurring items in the year to January 2023, within property provisions, foreign exchange and accelerated acquisition costs. For clarity, these are shown separately in the table below. These non-recurring items largely offset each other and so do not significantly distort the profitability of the Group. These and other significant changes in profit are explained below the table.

*PLEASE NOTE: In contrast to the analysis of our Online and Retail businesses, the analysis for Group businesses, which were less affected by lockdown, focuses on the performance versus last year.*

| £m | Jan 2024 (e) | Jan 2023 | Jan 2022 | Jan 2020 |
|---|---|---|---|---|
| NEXT Sourcing | 25.0 | 33.1 | 28.0 | 32.2 |
| Franchise and Retail international | 7.8 | 7.0 | 5.8 | 6.4 |
| Property transaction profit | 0.0 | 14.2 | 13.8 | (0.8) |
| Central costs and other | (42.0) | (41.9) | (40.5) | (22.0) |
| **Total underlying profit** | **(9.2)** | **12.4** | **7.1** | **15.8** |
| ***Non-recurring items*** | | | | |
| Property provisions | 0.0 | 22.8 | (3.0) | (0.9) |
| Foreign exchange | 16.0 | (16.3) | 2.5 | (1.5) |
| Accelerated acquisition costs | 0.0 | (5.4) | 0.0 | - |
| **Total non-recurring items** | **16.0** | **1.1** | **(0.5)** | **(2.4)** |
| **Total profit** | **6.8** | **13.5** | **6.6** | **13.4** |

## NEXT Sourcing

NEXT Sourcing (NS) is our wholly-owned overseas sourcing agent, it procures around 37% of NEXT branded products. Profit in the year to January 2023 increased by +£5.1m to £33.1m. The table below sets out the performance of the business in Pounds and in Dollars. Sales in Dollars were down -3% due to lower NEXT purchases. Profit in Dollars was up +6% largely due to lower incentive costs and other overhead cost savings.

| | US Dollars | | | £ Sterling | |
|---|---|---|---|---|---|
| | Jan 2023 USD m | Jan 2022 USD m | | Jan 2023 £m | Jan 2022 £m |
| Sales (mainly inter-company) | 655.9 | 678.9 | - 3% | 533.3 | 495.5 |
| **Operating profit** | **40.7** | **38.3** | +6% | **33.1** | **28.0** |
| **Net margin** | **6.2%** | **5.6%** | | **6.2%** | **5.6%** |
| Exchange rate | | | | 1.23 | 1.37 |

In the year ahead, NS sales, in Dollars, are expected to reduce by -15%, mainly due to the weaker Pound. This, combined with cost of living increases, means we are forecasting profit for the year ahead to be around £25m.

## Property Transaction Profit

Profit of £14.2m in the year ending January 2023 came mainly from two warehouse sale and leaseback transactions.

## Central Costs

Central costs of £41.9m were £1.4m higher than in the prior year primarily as a result of professional fees associated with acquisitions.

## Non-Recurring Items

### *Property provisions*

The net movement in property provisions was a release of £22.8m.

Our Retail business has performed better than expected in the last twelve months. As a result of improved sales and profit, and our outlook for sales and profit in the year ahead, we have reduced our store impairment provisions by **£34.9m**. After this release, the overall provision remaining is c.£16m and reflects our projection that only five of our stores will *not* generate a positive cash flow over the life of their lease.

We completed a full review of our provisions required for dilapidation costs upon exiting Retail stores and based on latest estimates we have increased our provisions by **-£12.1m**.

### *Foreign exchange (FX)*

The loss of £16.3m relates to FX contracts that were entered into earlier in the year when the Pound was weaker against the Dollar. Since then the Pound has strengthened and therefore the value of these contracts has decreased. Due to the structure of these FX contracts, we are unable to use Hedge Accounting, which means (unhelpfully) we see a large debit this year which will be followed by a large credit next year.

### *Accelerated acquisition costs*

We have accelerated the settlement of an earn-out agreement that was put in place when we bought Lipsy 15 years ago.

# INTEREST, TAX, PENSIONS AND ESG

## INTEREST

The interest charge in the P&L is made up of four categories, as set out below, along with last year and three years ago. Our forecast for the year ahead is also shown in the left hand column.

| £m | Jan 2024 (e) | Jan 2023 | Jan 2022 | Jan 2020 |
|---|---|---|---|---|
| Net external interest | (37.7) | (30.3) | (35.3) | (43.6) |
| Reiss preference share income | 4.9 | 4.8 | 2.4 | - |
| Total Platform loan interest income | 1.1 | 0.7 | 1.0 | - |
| Lease interest | (46.7) | (47.3) | (50.4) | (61.8) |
| **Total interest** | **(78.4)** | **(72.1)** | **(82.3)** | **(105.4)** |

### *Net external interest*

Net external interest of £30.3m was £5m (-14%) lower than last year. This reduction is due to the repayment of the £325m bond in October 2021, which was partially offset by an increase in the floating rate interest payable on other instruments. In the year ahead, we expect net external interest to increase to £37.7m due to higher interest rates, which affect our floating rate debt.

### *Reiss preference share income and Total Platform loan interest*

Reiss preference shares were acquired as part of our investment, accruing interest at a rate of 8% per annum (£4.8m). This is higher than the £2.4m in the prior year, due to the increase in equity stake from 25% to 51% in May 2022. We have also made commercial loans to four of our Total Platform clients, which generated £0.7m of loan interest.

### *Lease interest*

The reduction in lease interest is the result of the fall in average lease debt, from £1,122m (January 2022) to £1,040m (January 2023). Lease debt has decreased due to the net effect of (1) lower rents and shorter terms when we have renewed store leases, offset by (2) our new warehouse lease, Elmsall 3, in May 2022.

## TAX

Our effective tax rate (ETR) for the year to January 2023 was 18.25%. This is lower than the UK headline rate of 19%, as set out below.

| | Jan 2023 |
|---|---|
| Headline UK Corporation Tax rate | 19.00% |
| Provision releases | - 0.50% |
| Equity profit, which has already been taxed | - 0.45% |
| Non-deductible items (e.g. acquisition fees) | +0.20% |
| **ETR** | **18.25%** |

In the year ahead we forecast an ETR of 23.5%. This increase is mainly due to the UK headline rate increasing from 19% to 25%, effective April 2023. The Group's ETR remains lower than the 25% headline rate because: (1) February and March are at the lower rate of 19% and (2) profit from equity investments are reported on a post-tax basis in NEXT's accounts.

## PENSION SCHEMES

On the IFRS accounting basis, the valuation of our defined benefit schemes' surplus has increased from £157m as at January 2022 to £157.5m as at January 2023. Further detail is provided in Note 6 of the financial statements.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

During the year we have continued to make progress on our key areas of focus, which are summarised below.

## Code of Practice

Our Code of Practice team conducted 2,039 audits of the worldwide factories supplying NEXT products. With travel restrictions eased post-COVID, 93% of audits were conducted in person with two-thirds of the audits unannounced. 89% of the audits achieved a rating of between 1 to 3 (Excellent to Fair) with steps taken to address any issues identified from the remaining audits.

## Carbon Emission Reductions

By 2030 we aim to reduce our direct and indirect absolute carbon emissions (from NEXT energy consumption) by 55% against a 2016/17 baseline (Scope 1 & 2) and reduce our other indirect emissions from NEXT's operations by 40% against a 2019/20 baseline per £1m sales (Scope 3).

In the year to January 2023 our Scope 1 and 2 emissions were reduced by 47% and Scope 3 by 29% relative to the baseline figures.

## Responsible Sourcing

We aim to source 100% of the main raw materials (Cotton, Polyester, Man-Made Cellulosics, Wool, Timber and Leather) we use through known, responsible or certified routes by 2025. Progress in relation to (1) cotton (our most significant raw material) and (2) total main raw materials used is set out in the table below.

| % of raw materials responsibly sourced | Jan 2023 | Jan 2022 | Var % |
|---|---|---|---|
| Cotton | 67% | 49% | +18% |
| Total main raw materials | 54% | 42% | +12% |

## Packaging

We have been gathering data to record our progress against a baseline of our plastic usage in 2021. The targets we are using are aligned with external stakeholder groups, WRAP Plastic Pact and the Ellen MacArthur Foundation. Our 2025 targets are:

| 2025 Target | |
|---|---|
| Reduction in the use of virgin plastics | 50% |
| Reduction in overall packaging (relative to sales) | 25% |
| Percentage of packaging to be reusable or recyclable | 100% |
| Plastic packaging to contain at least 30% recycled content | 100% |

Our initial results are encouraging. One of our targets is for 100% of our packaging to be reusable or recyclable and, so far, 96% of our packaging meets this target.

# PART SIX

# CASH FLOW, DIVIDENDS & NET DEBT

## CASH FLOW[41]

In the year to January 2023 we generated **£268m** of surplus cash. Surplus cash is defined as cash after interest, tax, capital expenditure and investments, but *before* distributions to shareholders. The table below sets out a summarised cash flow for the year, along with last year, three years ago and our forecast for the year ahead.

Net debt (excluding lease debt) increased in the year by £197m to £797m. For further details on individual cash flow movements please see the page references given in the table.

In the year ahead, based on the guidance given on page 26, we expect to generate **£467m** of surplus cash before distributions.

| £m | | Jan 2024 (e) | Jan 2023 | Jan 2022 | Jan 2020 |
|---|---|---|---|---|---|
| **Profit before tax** | | **795** | **870** | **823** | **749** |
| Depreciation/impairment on plant, property and equipment | | 120 | 110 | 111 | 125 |
| Capital expenditure | (see page 57) | (170) | (206) | (184) | (139) |
| Tax paid | | (165) | (151) | (125) | (138) |
| Working capital/other | (see page 58) | (18) | (225) | (40) | (72) |
| **Surplus cash from trading activities** | | **562** | **398** | **585** | **525** |
| Customer receivables | (see page 46) | (90) | (92) | (135) | (27) |
| **Investments** | | | | | |
| Investments in third-party brands | (see page 59) | - | (91) | (33)[42] | - |
| Property stock | (see page 59) | (5) | 53 | (54) | - |
| **Surplus cash before distribution to shareholders** | | **467** | **268** | **363** | **498** |
| **Shareholder returns** | (see page 60) | | | | |
| Share buybacks | | (220) | (228) | (9) | (300) |
| Special dividends | | - | - | (344) | - |
| Ordinary dividends | | (250) | (237) | - | (214) |
| **Cash flow after distribution to shareholders** | | **(3)** | **(197)** | **10** | **(16)** |
| Bond repayment | | - | - | (325) | - |
| **Cash flow after bond repayment** | | **(3)** | **(197)** | **(315)** | **(16)** |
| **Closing net debt (excluding lease debt)** | | **(800)** | **(797)** | **(600)** | **(1,112)** |
| Facilities (after repayment of bond) | | 1,250 | 1,250 | 1,250 | 1,575 |
| **Headroom** | | **450** | **453** | **650** | **463** |

[41] The cash flow reflects the impact of IFRS 16. Depreciation on right-of-use assets and lease payments are included in working capital.

[42] A £10m loan to Reiss in the year ending January 2022, previously reported in this line, has been recategorised as working capital. The loan was repaid in the year ending January 2023.

# CAPITAL EXPENDITURE

## Capital Expenditure by Category

The table below sets out our capital expenditure for the year to January 2023 and, for comparison, the prior three years. The first column shows our outlook for the year ahead.

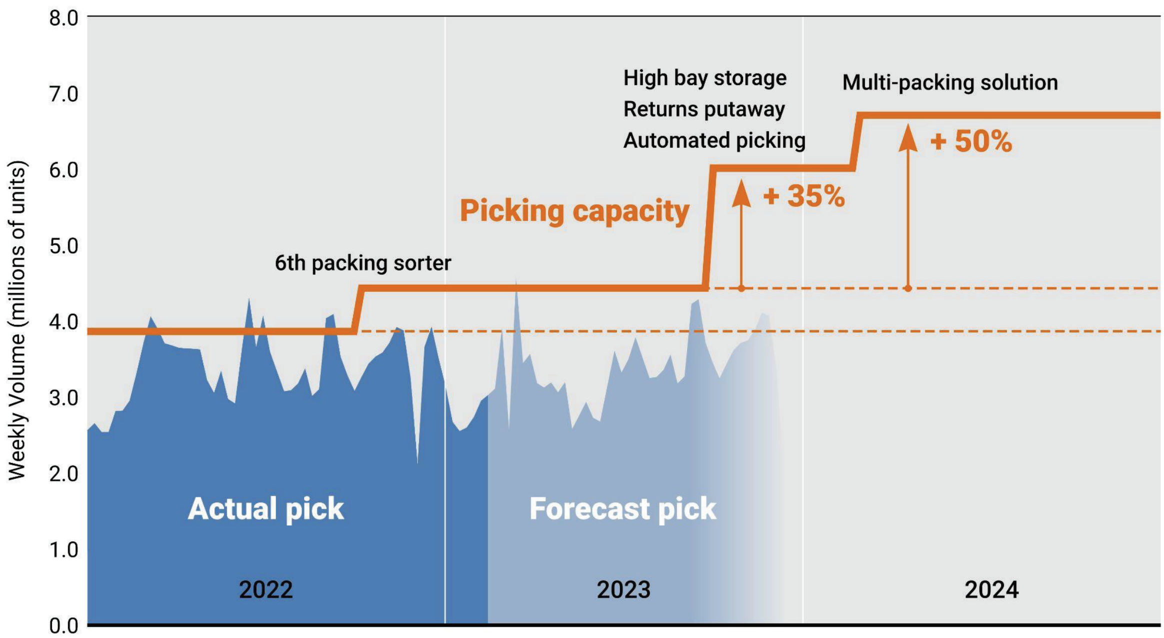
| £m | Jan 2024 (e) | Jan 2023 | Jan 2022 | Jan 2021 | Jan 2020 |
|---|---|---|---|---|---|
| Warehouse | 75 | 117 | 124 | 100 | 87 |
| Technology | 55 | 53 | 29 | 21 | 9 |
| **Total warehouse and Technology** | **130** | **170** | **153** | **121** | **96** |
| Retail space expansion | 6 | 8 | 14 | 29 | 24 |
| Retail cosmetic/maintenance capex | 26 | 26 | 15 | 8 | 14 |
| **Total Retail expenditure** | **32** | **34** | **29** | **37** | **38** |
| **Head office infrastructure and other** | **8** | **2** | **2** | **5** | **5** |
| **Total capital expenditure** | **170** | **206** | **184** | **163** | **139** |

### *Warehousing*

In the year to January 2023 warehouse capex, at £117m, includes the continued investment of £77m in our new, highly automated, boxed warehouse (Elmsall 3). We plan to deliver Elmsall 3 automation in phases throughout 2023 and 2024 (as shown in the graphic below). The warehouse building is already being used for conventional manual storage and customer picking, as an overflow for our existing operations. Elmsall 3, once complete, will deliver an estimated increase in boxed capacity of 50%, with marginal labour cost per unit around 40% lower than the equivalent cost today. These savings will not be fully achieved until the automation is completed in the year ending January 2025.

In the year ahead, we anticipate that warehouse capex will reduce to £75m, which includes the completion of Elmsall 3 automation projects, the extension of our palletised warehouse in Doncaster and the refit of our returns operation for hanging garments.

**Warehouse Pick and Pack Capacity Volumes (Units), Online Boxed Warehousing**



### *Technology*

Capex in the year of £53m comprised £15m on hardware and £38m of development costs. The estimate is higher than the £39m[43] given in September's Half Year Report, because we have been able to recruit developers at a faster rate than we had previously thought possible. In addition, we have accelerated some of our planned hardware upgrades. Around £20m of our technology capex in the year ahead relates to the software modernisation projects outlined in previous reports (see Half Year Report, September 2021, pages 14-15), the other main areas of expenditure are set out in the table below.

| Technology capex by category | Jan 2024 (e) | Jan 2023 |
|---|---|---|
| Modernisation projects | 25 | 20 |
| Total Platform, LABEL and warehouse projects | 9 | 10 |
| Security and head office department projects | 4 | 5 |
| Small development projects | 5 | 3 |
| Hardware | 12 | 15 |
| **Total Technology capex** | **55** | **53** |

### *Retail stores*

Capex on Retail space expansion reduced to £8m, down from £14m in the prior year, as a result of fewer new store openings. Cosmetic and maintenance spend was £26m compared to £15m in the prior year. Expenditure on cosmetic refits remains focused on those stores where we have extended the lease. Total store capex in the year ahead is expected to be broadly in line with last year, at £32m.

### *Head office infrastructure and other*

In the year ahead, expenditure on head office infrastructure is expected to increase by +£6m to £8m. The majority of this increase relates to a new photo studio, which is being relocated from one of our regional distribution centres to a new bespoke standalone facility. This move will increase our studio capacity and allow more of our photography to be completed in-house.

## WORKING CAPITAL

In the year to January 2023 the net cash outflow on working capital and other items totalled -£225m. The four largest outflows were as follows:

- **ESOT (Employee Share Option Trust):** There was a larger than normal net cash outflow of -£89m; in a normal year we would expect to spend around £40m. This unusual net outflow was mainly the result of fewer employees exercising their options, which is to be expected given the relatively low price of our shares for much of last year. We also marginally increased our cover of outstanding options by around £5m.
- **Debtors:** There was a net outflow of -£65m due to (1) the increased amounts owing from Total Platform clients, (2) timing of receipts from third-party aggregators and (3) the timing of VAT payments.
- **Stock:** Extended lead times at the beginning of the year resulted in earlier stock purchases which generated a -£23m cash outflow. Our stock levels have now returned to more normal levels and, as at the end of February, were +1% ahead of last year.
- **Staff incentives:** There was a -£44m outflow for staff incentives awarded in relation to the prior year but paid during the year to January 2023.

[43] This estimate included £2m of capex for Head Office and other central projects.

## INVESTMENTS IN THIRD-PARTY BRANDS[44]

Investments in third-party brands are listed below, along with NEXT's equity stake, where applicable.

| £m | Equity stake | Jan 2023 | Jan 2022 |
|---|---|---|---|
| Reiss | 51.0% | (45.3) | (33.0) |
| Reiss dividend | | 15.3 | - |
| Joules | 74.0% | (15.7) | - |
| Joules loan | | (13.1) | - |
| Joules head office | | (7.4) | - |
| JoJo Maman Bébé | 44.0% | (15.9) | - |
| Swoon | 25.0% | (3.5) | - |
| MADE.com | n/a | (3.4) | - |
| Sealskinz | 19.9% | (1.9) | - |
| **Total investments** | | **(90.9)** | **(33.0)** |

### *Reiss*

In the year to January 2022 we invested £33m in a 25% stake in Reiss. In May 2022 we exercised our option to buy a further 26% stake for £45m, taking our total shareholding to 51%. During the year we received our first dividend from the investment in Reiss of £15m.

### *Joules*

In December 2022 we acquired the trade and assets of Joules out of administration for £28.8m. This was made up of £15.7m for a 74% equity stake and £13.1m in the form of a loan, which was required by Joules to acquire the trade and assets from the administrators. This acquisition was done in partnership with Tom Joule, who has a 26% stake in the new business. Joules continues to trade through its retail stores and its own website and will move onto NEXT's Total Platform in Q1 2024. We also purchased Joules' head office property for £7.4m.

### *JoJo Maman Bébé*

In April 2022 we invested £15.9m in a 44% equity stake in JoJo Maman Bebe. The deal was completed in partnership with Davidson Kempner. Subject to certain contractual conditions a further £1.3m may be payable as final consideration.

## PROPERTY STOCK

The sale and leaseback of the new Elmsall 3 warehouse was completed in May 2022, resulting in a net cash inflow of £64m. This inflow is the combination of £91m received on the sale, *less* £16m of build costs in the year, *less* the related profit on property sale of £11m (the cash flow for which is accounted for in the P&L).

| £m | Jan 2023 | Jan 2022 |
|---|---|---|
| Elmsall 3 warehouse sale and leaseback | 64.1 | (29.6) |
| Development costs for our palletised warehouse extension in Doncaster | (11.6) | |
| Land acquisition for potential future development | | (24.0) |
| **Total** | **52.5** | **(53.6)** |

[44] See Appendix 2 for detail on how each of these investments are accounted for in the statutory financial statements.

# DIVIDENDS AND SHAREHOLDER RETURNS

The Company remains committed to its long term policy of returning surplus cash, that cannot be profitably invested in the business, to shareholders. Surplus cash (after interest, tax, capital expenditure, investments or acquisitions and ordinary dividends) will be returned to shareholders by way of share buybacks or special dividends. Any share buybacks would be subject to achieving a minimum 8% equivalent rate of return (ERR). As a reminder, ERR is calculated by dividing the anticipated pre-tax profits by the current market capitalisation[45]. During the year we returned to our pre-pandemic ordinary dividend cycle.

## Shareholder Returns in 2022/23

### *Ordinary dividends*

An ordinary dividend of 127p was paid on 1 August 2022 and an interim dividend of 66p in respect of the year to January 2023 was paid on 3 January 2023. The Board has proposed a final ordinary dividend of 140p, to be paid on 1 August 2023, taking the total ordinary dividends for the year to 206p. This is subject to approval by shareholders at the Annual General Meeting to be held on 18 May 2023. Shares will trade ex-dividend from 6 July 2023 and the record date will be 7 July 2023.

### *Share buybacks*

In the year ending January 2023 we purchased 3.5m shares at an average share price of £63.85, totalling £224m. This reduced the number of shares in issue by 2.6% since the January 2022 year end and represents an ERR of 10.7%. In addition, in early February 2022, we paid £4m for shares acquired in January 2022, so total payments for buybacks in the financial year 2022/23 were £228m.

## Outlook for Shareholder Returns in 2023/24

### *Ordinary dividends*

Based on achieving our current profit guidance of £795m, it is our intention to maintain our dividend per share at 206p (66p interim and 140p final), in line with the dividend paid for the year ending January 2023. This would equate to a total pay-out of £250m and represents 41% of our forecast post tax profit, a cover of 2.4 times.

### *Share buybacks*

For the purpose of this guidance we have estimated that, after paying ordinary dividends, we will return £220m of surplus cash to shareholders by way of share buybacks, although this figure may reduce if we make further investments. We estimate that these buybacks, along with those in the last year, will boost pre-tax EPS by +2.3%. This enhancement is more than offset by the increase in the Corporation Tax rate, which reduces EPS by -6.1%. See page 27.

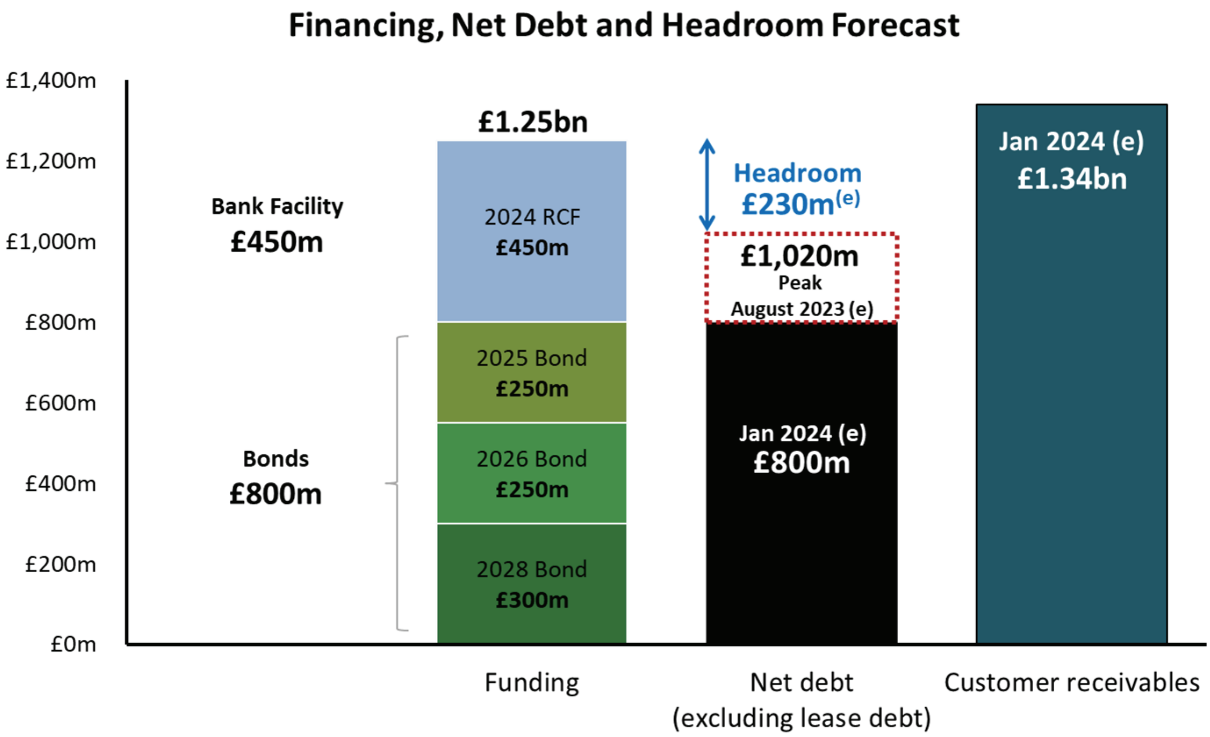
[45] Market capitalisation is calculated based on shares in circulation, so excludes shares in the NEXT ESOT.

## NET DEBT, BOND AND BANK FACILITIES

Our current bond and bank facilities total £1,250m.

Based on our cash flow guidance for the year ahead, we anticipate that our net debt will peak in August at £1,020m, comfortably within our bond and bank facilities of £1,250m, and will end the year at around £800m.

The chart below sets out our bond and bank facilities. For context, our year end forecast for customer receivables is £1.34bn, significantly higher than the value of our net debt.




## FIRST QUARTER TRADING UPDATE

Our first quarter Trading Statement will cover the thirteen weeks to Saturday 29 April 2023 and is scheduled for Thursday 4 May 2023.

**Lord Wolfson of Aspley Guise**
Chief Executive
29 March 2023

# APPENDIX 1 - PRIOR PERIOD RESTATEMENTS

## OVERVIEW

As set out on page 21 we have changed how we present the profits for our key divisions in the Chief Executive's Review because of the growth of Lipsy and Total Platform, which are now a more significant part of the overall Group performance. We believe these changes help improve our reporting, providing greater clarity as the business evolves and different parts of the business emerge and grow.

To ensure our results in the Chief Executive's Review and statutory accounts are presented on a consistent basis, we have restated the comparative periods (January 2022 and January 2020) for these changes. These changes are to allocations only - there is **no impact on overall Group profit.**

### Lipsy Adjustment

In the past we have split the profit we generate from selling Lipsy goods through the NEXT website. Half the profit was reported in our Online division. The other half we reported in the Lipsy division which was within Other Group Activities, along with Property and Sourcing. However, because ***all*** of Lipsy's sales were reported in the Online division, this served to understate the margin of the Online business. Three years ago, Lipsy's 'share' of Online profit was immaterial at only £6.8m; today the number would be £27.5m.

To correct this issue, we are now reporting all of Lipsy's Online sales *and* profits through the Online division. We have adjusted the relevant numbers from last year and three years ago, so that comparisons are on a like-for-like basis. We have also amended our reporting for the Finance division, where half of the Finance profit on Lipsy sales was previously reported in Lipsy.

The table below summarises how the Lipsy profit on the previous basis has been allocated to each area of the business. This shows, for example, that of the £20.5m reported profit in January 2022, £16.7m has now been allocated into LABEL, £1.3m into Overseas, £7.7m into Finance and the residual central costs of £5.2m have now been allocated into Group other.

| £m | Jan 2023 | Jan 2022 | Jan 2020 |
|---|---|---|---|
| **Lipsy profit (previous basis)** | **27.1** | **20.5** | **13.0** |
| ***Allocation on restated basis*** | | | |
| LABEL | 24.9 | 16.7 | 5.9 |
| Overseas | 2.6 | 1.3 | 0.9 |
| **Total Online** | **27.5** | **18.0** | **6.8** |
| Finance | 11.7 | 7.7 | 6.2 |
| Other | (12.1) | (5.2) | - |
| **Total Lipsy allocation** | **27.1** | **20.5** | **13.0** |

## Total Platform Adjustment

Last year, the profit on Total Platform was reported across two business areas: (1) profit on sales was reported within the Online division and (2) equity returns were reported within 'Sourcing and Other'.

The Total Platform business has grown significantly in the last 12 months and therefore sales and profits will now be presented within its own segment. As a result, the prior year segment revenue and profits have been restated so that all Total Platform related profit is presented in its own segment. Total Platform did not exist in 2019/20 and hence no restatement is required for that period. The impact is summarised below:

- Total Platform commission profit of £5.1m (2021/22: £2.1m) has been moved from NEXT Online into the separate Total Platform line.
- Total Platform equity profit of £11.2m (2021/22: £4.7m) has been moved from Sourcing and Other into the Total Platform line.

**The impact of these two restatements by division is set out in the following tables.**

## Restatement of Divisional Profit - 2022/23, 2021/22 and 2019/20

*Please note that the figures given in the tables below have not been adjusted for rounding/casting differences.*

### 2022/23

| PROFIT £m | Jan 2023 old basis | Lipsy adjustment | Total Platform adjustment | Jan 2023 new basis |
|---|---|---|---|---|
| Online | 444.9 | 27.5 | (5.1) | 467.3 |
| Retail | 240.5 | - | - | 240.5 |
| Finance (after funding costs) | 158.8 | 11.7 | - | 170.5 |
| **Profit from Trading** | **844.2** | **39.2** | **(5.1)** | **878.2** |
| Total Platform (inc equity) | - | - | 16.3 | 16.3 |
| Sourcing, Property, FX & Other | 64.0 | (39.2) | (11.2) | 13.6 |
| Recharge of interest to Finance | 34.4 | - | - | 34.4 |
| **Operating profit**[46] | **942.6** | **-** | **-** | **942.6** |

### 2021/22

| PROFIT £m | Jan 2022 previously reported | Lipsy adjustment | Total Platform adjustment | Jan 2022 restated |
|---|---|---|---|---|
| Online | 588.5 | 18.0 | (2.1) | 604.4 |
| Retail | 107.0 | - | - | 107.0 |
| Finance (after funding costs) | 141.8 | 7.7 | - | 149.5 |
| **Profit from Trading** | **837.3** | **25.7** | **(2.1)** | **860.9** |
| Total Platform (inc equity) | - | - | 6.9 | 6.9 |
| Sourcing, Property, FX & Other | 37.2 | (25.7) | (4.7) | 6.8 |
| Recharge of interest to Finance | 30.9 | - | - | 30.9 |
| **Operating profit** | **905.4** | **-** | **-** | **905.4** |

### 2019/20

| PROFIT £m | Jan 2020 previously reported | Lipsy adjustment | Total Platform adjustment | Jan 2020 restated |
|---|---|---|---|---|
| Online | 410.5 | 6.8 | - | 417.3 |
| Retail | 234.0 | - | - | 234.0 |
| Finance (after funding costs) | 146.7 | 6.2 | | 152.9 |
| **Profit from Trading** | **791.2** | **13.0** | **-** | **804.2** |
| Total Platform (inc equity) | - | - | - | - |
| Sourcing, Property, FX & Other | 26.4 | (13.0) | - | 13.4 |
| Recharge of interest to Finance | 36.3 | - | | 36.3 |
| **Operating profit** | **853.9** | **-** | **-** | **853.9** |

[46] Operating profit excludes the minority interests in Joules.

# APPENDIX 2 - RECONCILIATION TO STATUTORY RESULTS



## OVERVIEW

The financial information presented in pages 4 to 61 is used by management in assessing business performance. It is also the financial information used to inform business decisions and investment appraisals. Some of these financial metrics and performance measures are not prepared on a full IFRS statutory accounting basis. It is common for these performance measures to be called 'Alternative Performance Measures' (APMs).

An explanation of the APMs used by the business is provided in the glossary.

In this appendix we provide a reconciliation between APMs and their statutory equivalents for the following key areas:

1. Total sales (CEO report) and statutory revenue
2. NEXT profit before tax (CEO report) and profit before tax
3. Investments (CEO report) and Statutory accounting for the investments
4. Capital expenditure (CEO report) and capital expenditure for statutory reporting
5. Cash flow (CEO report) and statutory cash flow.

### 1. Sales and Statutory Revenue

In common with many retailers, we use 'Total Sales' and similar metrics to assess the performance of the business, and not statutory revenue. We have applied this approach consistently in prior years and in our Trading Statements. It is our view that this provides both a useful and necessary basis for understanding the Group's performance and results.

#### *Definition of Total Trading Sales, Total Group Sales and Statutory Sales*

**Total Trading sales** include the sales of all the stock we own and the gross transaction value of sales of LABEL products sold on a commission basis.

**Total Group sales** include sales through Total Platform. Total Platform sales consist mainly of the gross transaction value of client sales on Total Platform websites, but it also includes £18m of wholesale, licensing sales and revenue from services provided on a cost plus basis. Group sales also include sales from our Franchise division, sales through NEXT Sourcing (our sourcing company), Joules and property income.

**Statutory sales** are Total Group sales less LABEL commission sales and less Total Platform sales plus LABEL and Total Platform commissions, plus other income as summarised in the table below:

| £m | Jan 2023 | Jan 2022 |
|---|---|---|
| **Total Group sales** | **5,414.5** | **4,861.8** |
| *less LABEL & Overseas commission sales (full price and markdown)* | *- 553.8* | *- 450.3* |
| *less Total Platform sales* | *- 144.4* | *- 39.1* |
| *plus commission earned on LABEL sales* | *+207.5* | *+169.5* |
| *plus commission earned on Total Platform sales* | *+24.6* | *+10.6* |
| *plus Total Platform wholesale, licensing and cost plus revenues* | *+18.2* | *+0.6* |
| *plus other income (e.g. delivery charges)* | *+67.4* | *+72.8* |
| **Total Group statutory sales** | **5,034.0** | **4,625.9** |

## 2. Reporting of Joules

During the year NEXT acquired 74% of Joules with the remaining 26% acquired by Tom Joule. The share held by Tom Joule is known, for statutory reporting purposes, as a 'non-controlling interest' or sometimes referred to as a 'minority interest'.

For statutory reporting purposes, 100% of the Joules business is consolidated into the NEXT group results. At the bottom of the statutory income statement the element of the profit attributable to NEXT shareholders, being 74% of the Joules profit after tax, is then presented with the residual element shown as being the profit attributable to non-controlling interests (i.e. the 'minority interest').

For the purposes of the CEO report, the effect of the minority interest is removed from the divisional profits and the profit before tax. This means that the following lines show 74% of the Joules results:

- Operating profit
- Net interest
- Profit before tax

This is consistent with how management assesses and measures its performance for internal reporting and management purposes. The reconciliation between the CEO report and Statutory operating profit, interest and profit before tax is shown below for reference.

| | CEO report | Statutory reporting | Difference |
|---|---|---|---|
| **Operating profit** | 942.5 | 941.5 | 1.0 |
| Finance income | 5.8 | 5.7 | 0.1 |
| Finance costs | **(77.9)** | **(77.9)** | 0.0 |
| **Profit before tax** | **870.4** | **869.3** | **1.1** |

## 3. Investments in Third-Party Brands

During the year NEXT has invested in six third-party brands. The table on page 59 of the CEO report sets out the cash cost of these investments.

The legal structure of these investments differs from transaction to transaction and, as a result, the statutory reporting for these transactions may differ from the investment summary set out on page 59 of the CEO report. The table below shows how each transaction is accounted for in the statutory financial statements.

| Investment per CEO report | Value as per CEO report £m | Equity stake % | Statutory accounting | Note |
|---|---|---|---|---|
| Reiss | (45.3) | 51% | Equity accounting | 1 |
| Reiss dividend | 15.3 | n/a | Equity accounting | 1 |
| Joules (equity and loan) | (28.8) | 74% | Consolidated | 2 |
| Joules head office | (7.4) | n/a | Plant, property & equipment | 3 |
| JoJo Maman Bébé | (15.9) | 44% | Equity accounting | 4 |
| Swoon | (3.5) | 25% | Equity accounting | 4 |
| MADE.com | (3.4) | n/a | Intangible | 5 |
| Sealskinz | (1.9) | 19.9% | Investment accounting | 6 |
| **Total investments** | **(90.9)** | | | |

**Note 1: Reiss**
NEXT increased its equity stake in Reiss from 25% to 51%. While this provides NEXT with the largest shareholding, it does not give NEXT control of the Reiss business. Instead, NEXT has joint control as certain operational decisions require agreement of **all** shareholders. As a result, the investment in Reiss is reported using 'Equity Accounting'. In summary, this means that:

- The original cost of the investment is shown in the balance sheet.
- Each year this is adjusted for NEXT's share of the performance of the Reiss group.
- Dividends received are set off against the investment in the balance sheet.

The full accounting policy for 'Equity Accounting' is set out on page 181 under Basis of Consolidation. The cost also includes the preference shares which are a financial asset.

**Note 2: Joules**
NEXT acquired a 74% controlling interest in a company called Harborough Hare Holdings Limited ('Joules'). As NEXT has control of Joules (and its subsidiaries) we ***consolidate*** their results into the NEXT Group financial statements. In summary, this means that:

- All of the individual assets and liabilities of the Joules group are shown in the NEXT consolidated balance sheet.
- All of the profit and loss from Joules group is shown in the consolidated NEXT Income Statement on a line by line basis.

In the financial year 2022/23, the Joules Group reported a loss of -£4m.

Further details on the Group accounting policy for consolidated investments is included on page 181.

**Note 3: Joules Head Office**
The acquisition of the Joules head office was carried out at the same time as the wider Joules acquisition. It has therefore been included in investments. For statutory reporting purposes this is treated as the acquisition of a property in Plant, Property and Equipment.

**Note 4: JoJo Maman Bébé and Swoon**
NEXT has taken a non-controlling equity stake in both businesses. However, we consider that from a statutory reporting perspective NEXT has 'significant influence' and therefore, like Reiss, these have been equity accounted for in the statutory financial statements. The process and basis is therefore the same as set out for the Reiss equity noted above.

**Note 5: MADE.com**
NEXT acquired the brand name, domain names and intellectual property of MADE.com for £3.4m. This is an acquisition of an intangible asset and therefore for statutory reporting purposes has been included as an addition within the intangible assets line. It will be depreciated over its useful life.

Full detail on the Group accounting policy for intangible assets is included on page 183.

**Note 6: Sealskinz**
NEXT acquired a 19.9% equity stake in Sealskinz. NEXT does not have 'significant influence' over Sealskinz due to the large number of other shareholders, which dilutes the influence of any one shareholder. NEXT has therefore recognised this as an investment in its balance sheet and adjusts this each year for the *fair value* movement. Any gains or losses are then reported within the Income Statement.

## 4. Capital Expenditure

The capital expenditure in the cash flow presented in the CEO report is presented based on the internal operational view of capital expenditure. From a statutory viewpoint, there are some differences which are reconciled below.

| | Jan 2023 £m |
|---|---|
| Capital expenditure per CEO report | 206.0 |
| Add MADE.com | 3.4 |
| Add acquisition of Joules head office | 7.4 |
| Add property build costs | 31.1 |
| Less capital accruals | (1.1) |
| **Capital expenditure per statutory reporting** | **246.8** |

In the CEO report, expenditure on MADE.com and Joules head office has been presented as part of the Investment costs while the Property build costs are shown separately within the Property costs section. Capital accruals are shown as part of working capital in the cash flow in the CEO report.

## 5. Cash Flow

The cash flow statement presented in the CEO report is consistent with the cash flow statement used by management in its decision making processes and internal reporting. It is this view of the cash flows, and in particular the 'Surplus Cash' line, that informs decision making on distributions. However, this approach, while used by management, is not consistent with the presentation of cash flows on a statutory basis.

In this section we provide a walk forward from Surplus Cash presented in the CEO report cash flow to 'net cash from operating activities' in the statutory cash flow. The overall total cash flow is the same - the difference is limited to presentation.

The statutory cash flow is split into three main sections:

- *Operating activities:* Cash flows primarily derived from our revenue-producing activities.
- *Investing activities:* Cash flows that result in the recognition of an asset in the balance sheet (i.e. capex or investing in another company).
- *Financing activities:* Cash flows that result from financing - issue of shares, share buybacks, issue of bonds, interest payments/receipts, dividends and leases. The cash flow in the CEO report is presented in a different way, as explained further overleaf.

| | Note | £m |
|---|---|---|
| **Surplus cash from trading activities** | 1 | 398.4 |
| Add back interest charge to get to Group PBT | 2 | 71.1 |
| Depreciation / impairment on plant, property and equipment | 3 | (16.7) |
| Capital expenditure | 4 | 205.8 |
| Purchase of shares by ESOT | 5 | 124.0 |
| Disposal of shares by ESOT | 5 | (34.3) |
| Customer receivables | 6 | (92.0) |
| Lease payments (net of incentives) | 7 | 157.0 |
| Working capital and other | 8 | (14.5) |
| **Net cash from operating activities - per statutory cash flow** | 9 | **798.8** |

**Note 1:** As per the cash flow statement on page 56 of the CEO report, Surplus Cash from Trading Activities was £398m for the year to January 2023.

**Note 2:** The cash flow in the CEO report starts with the NEXT Group profit before tax of £870.4m, which is after interest costs of £72.2m and removes the Joules non-controlling interest of £1.1m. This differs from the statutory cash flow statement, which starts its cash flow statement with "operating profit" of £941.5m.

**Note 3:** The cash flow in the CEO report includes the depreciation, amortisation, impairment and gains on disposals of our plant, property and equipment including sale and leaseback transactions. In the statutory cash flow these items are presented within operating cash flows and investing activities.

**Note 4:** Management includes the capital expenditure (capex) which it considers to be part of its trading activity and deducts this capex when calculating Surplus Cash. In the statutory cash flow, all capex is included within investing activity and hence not part of operating cash flows. Therefore the capex of £206m in the CEO report has been added back in the bridge above.

**Note 5:** Surplus cash is recognised after the purchase and disposal of shares in the ESOT. In contrast they are classified as financing activity in the statutory cash flow.

**Note 6:** The customer receivables cash movement relates to the next**pay** receivables balance. For management purposes, movements in this balance are excluded from Surplus Cash. In contrast, this is included within operating cash flow for statutory reporting.

**Note 7:** The cash flows associated with our leases, which are predominantly store related, are considered by management to be an integral part of our trading cash flows and hence are included in the calculation of Surplus Cash. From a statutory perspective, lease cash flows are included in financing activity (as a lease is deemed a form of debt).

**Note 8:** The remaining difference relates to immaterial movements on working capital and other items such as the equity profit from our investments.

**Note 9:** This value of £798.8m can be reconciled to the line "Net cash from operating activities" in the statutory cash flow statement.

# BUSINESS MODEL

The key elements of our business model are set out here, together with the guiding principles that have shaped the direction in which we have taken the business. We focus on NEXT and have included those Group companies who have traded in the full period with material values. For this reason Joules is not included.

## OUR OBJECTIVES

**Our purpose is to offer beautifully designed, excellent quality clothing, homeware and beauty products which are responsibly sourced and accessibly priced, and in doing so build shareholder value through long term, sustainable growth in Earnings Per Share.**

We are, at heart, a fashion, homeware and beauty business with excellent operations and strong financial disciplines. We have spent years honing those skills and the supporting infrastructure, building the trust and confidence of our customers, suppliers and partners along the way. It is these qualities that we aim to leverage and develop, supported by our core principles of doing business responsibly. We look to:

### 1. Add value

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

### 2. Play to our strengths

- Improve and develop our product ranges by using our design skills to create quality products at affordable prices.

## OUR INFRASTRUCTURE

We draw on all of our assets – warehouses, delivery networks, systems, websites, stores, marketing, credit facilities – to support a business selling hundreds of third-party brands alongside our own NEXT products.

### • Warehousing & Distribution

9 UK warehouses, 7 UK depots and 1 international hub which are fully integrated with our cost efficient distribution facilities. Our distribution network serves our Retail stores and Online customer deliveries for both NEXT and third-party branded products. We also facilitate the induction of products held in third-party warehouses into NEXT's distribution network for onward delivery to customers.

### • NEXT Online

Around 7 million UK Online customers and 1.6 million overseas customers.

### • Well-Connected Store Network

Around 500 stores in UK & Eire and 206 franchised stores in 33 countries. Our stores play an important role in supporting our Online customers; nearly half of our UK Online orders are collected in-store and the majority of returns are through our stores.

### • Digital Marketing Systems

The development of online marketing systems to target products and brands to the customers most likely to want those items. Our systems have the ability to manage significant amounts of data and incorporate sophisticated search facilities and web based marketing tools that link with our email and social marketing systems.

### • Consumer Credit

NEXT Finance has built a high quality receivables book with customer credit balances amounting to £1.5bn. The ability to sell products on credit has proven to be an attractive service to customers which benefits Online sales and Group profitability. The customer receivables are a valuable asset, adding to the Group's financial strength.

### • Call Centres

NEXT operates call centres in the UK and overseas to support its worldwide customer service operations for Retail, Online and NEXT Finance. We also employ multi-language services to meet the needs of our international customers.

### • Supply Chain

NEXT has a well established supply chain that is supported by our overseas sourcing operation, NEXT Sourcing Limited (NSL). NSL provides buying, sourcing and design skills which support the product teams in the UK. NEXT owns a similar, smaller operation based in Portugal overseeing sourcing in Europe and North Africa.

## HOW WE CREATE VALUE

The combination of NEXT products and third-party brands, coupled with the strong infrastructure and our core principles, enables the business

### For Our Customers

- **More product choice** – A combination of NEXT products and third-party brands means customers can choose from an extensive range of products.
- **Cost and quality control** – Our sourcing structure provides excellent quality and accessibly priced products.
- **Outstanding customer experience** – Our extensive logistics operations provide quick and cost-effective delivery and our call centres help maintain great customer satisfaction.

### For Our Third-Party Brand Partners

- **Strong relationships** – We aim to be the most profitable route to market for our partners.

- Increase the number of profitable Online customers and their spend, both in the UK and internationally. Our Online business is complemented by our LABEL offering of branded products and, in the UK, the credit facilities (next**pay** and next**3step**). Our objective is to be our customers' first choice online retailer for clothing, beauty, footwear and home products.

### 3. Make a margin

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

### 4. Make good returns on capital invested

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

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

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

## WHAT WE DO

The business has evolved at pace in recent years and continues to do so. The growth in our LABEL business and, more recently, the Total Platform business have expanded the channels through which we generate sales. These can be summarised across four key streams:

- **NEXT and Lipsy Branded Products**

Our in-house team develops NEXT branded products offering great design, quality and value for money. Lipsy is our wholly-owned subsidiary which designs and sells its own branded and other branded products.

- **Third-Party Brands**

Our LABEL business sells third-party clothing, home and beauty brands online. These are sold on a commission or wholesale basis.

- **Total Platform**

We leverage our infrastructure by offering a complete suite of services to third-party brands. We provide services such as websites, marketing, warehousing, distribution networks and contact centres.

- **Third-Party Brand Licences**

Our licensing business creates value by combining NEXT's sourcing and quality expertise with the design inspiration of partner brands.

to consistently create value for our stakeholders.

### For Our Total Platform Clients

- We enable our clients to focus on the areas where they add most value, such as design and buying, rather than capital-intensive areas such as website development and logistics.

### Responsibly

- We source globally to deliver NEXT products that are responsibly sourced. We are working closely with suppliers to fulfil our ambition to source our main raw materials through known, responsible or certified routes by 2025.

### For Our Shareholders

- We manage financial resources effectively to maximise shareholder value. NEXT is highly cash generative; after investing in the business, surplus cash is returned to shareholders.

# KEY PERFORMANCE INDICATORS (KPIs)

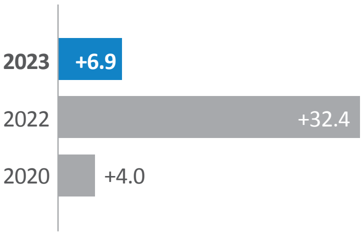
KPIs are designed to measure the development, performance and financial position of the business. The KPIs include Alternative Performance Measures (APMs).

All KPIs which show a growth metric are based on a year-on-year calculation of growth.

## NEXT Sales APM

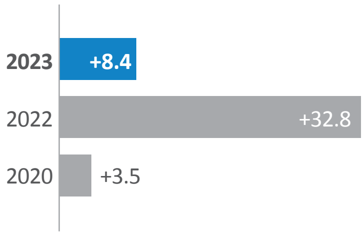
NEXT Brand full price sales[1] growth

**+6.9%**




NEXT Total trading sales[2] growth

**+8.4%**

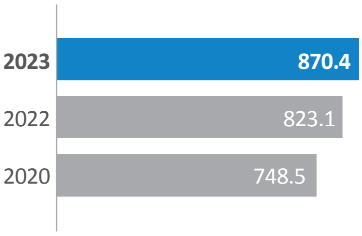



1. Full price sales are VAT exclusive sales of stock items excluding items sold in our sale events, our Clearance operations, Joules and Total Platform. It includes interest income on those sales.
2. Total trading sales are VAT exclusive full price and markdown sales including the full value of commission based sales and interest income for our Online, Retail and Finance divisions (as described in Note 1 to the financial statements).

## NEXT profitability and Earnings Per Share (EPS)

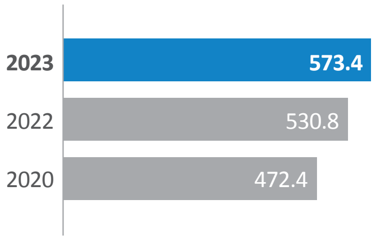
NEXT profit before tax APM

**£870.4m**




EPS (Basic)[3]

**573.4p**

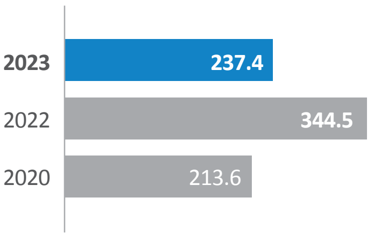



3. For further information on EPS, refer to Note 8 of the financial statements.

## Return to shareholders

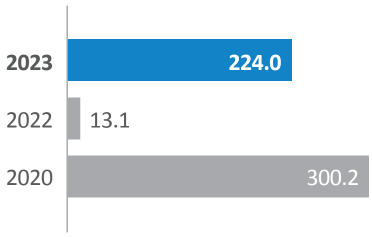
Special/Ordinary dividends[4]

**£237.4m**



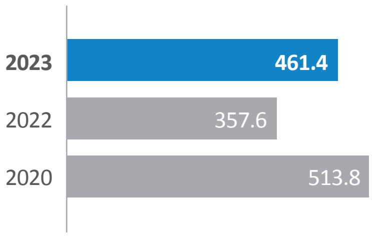

Share buybacks[5]

**£224.0m**




Total return to shareholders

**£461.4m**



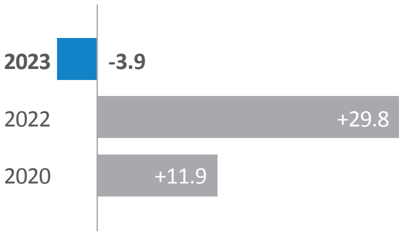

4. Based on dividends paid in the Cash Flow Statement. Refer to Note 7 to the financial statements.
5. A total of 3,508,417 shares were purchased in the financial year (2022: 177,500, 2020: 5,376,718) at an average cost per share of £63.85 (2022: £74.04, 2020: £55.83) including stamp duty and associated costs. The average price before costs was £63.45 (2022: £73.58, 2020: £55.49).

APM The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements. Where appropriate a reconciliation between an APM and its closest statutory equivalent is provided in the Glossary on page 245 to 248 and Appendix 2.

## NEXT Online sales performance APM

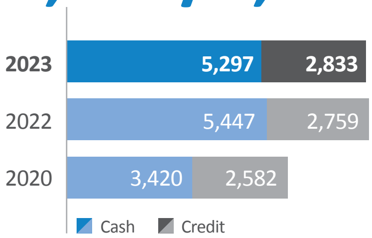
Full price sales growth

**-3.9%**



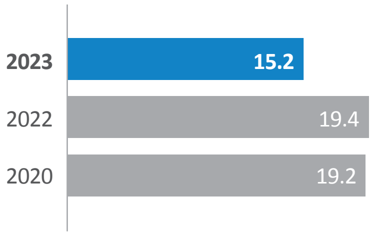

Average active customers[6] (000's) (cash/credit)

**5,297/2,833**




Online margin (excl. Finance)[7]

**15.2%**

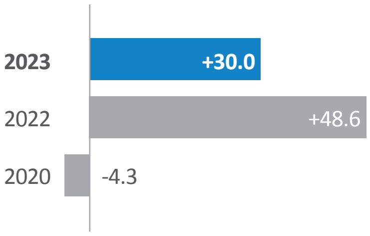



6. Average active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks. Credit customers are those who order using an Online credit account, whereas cash customers are those who pay when ordering (including overseas).
7. Restated for change in Lipsy and Total Platform and after deducting allocation of lease interest.

## NEXT Retail sales performance APM

Full price sales growth

**+30.0%**

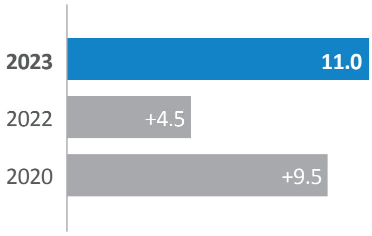



Retail selling space sq ft[8] (000's)

**7,767sq.ft**


Retail margin[7]

**11.0%**

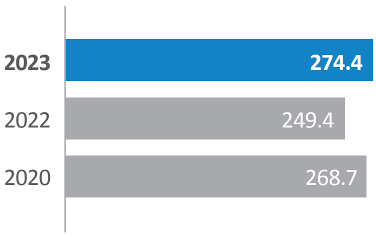



8. Selling space is defined as the trading floor area of a store which excludes stockroom and administration areas and is shown as at the financial year end (excluding Joules). The square footage excludes 465 sq ft (2022: 421 sq ft) of space occupied by concessions.

## NEXT Finance

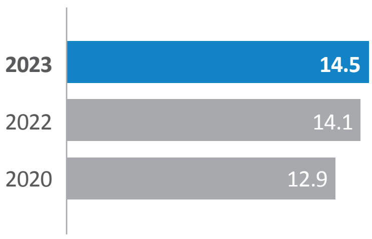
Interest income

**£274.4m**



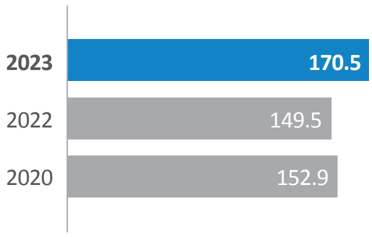

Return on Capital Employed (after cost of funding)[9,10] APM

**14.5%**




Profit (after cost of funding)[10] APM

**£170.5m**




9. Return on Capital Employed is defined as the NEXT Finance net profit (after the interest charge relating to the cost of funding), divided by the average debtor balance.
10. Restated for change in reporting of Lipsy profit.

# RISKS AND UNCERTAINTIES

## Risk management and internal control framework

### Approach

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

The risks and uncertainties that the business faces evolve over time. Executive directors and senior management are delegated the task of implementing and maintaining controls to ensure that risks are managed appropriately. The risk management process is designed to identify, evaluate and mitigate, rather than eliminate, the risk of failure to achieve business objectives. This means it therefore can only provide reasonable and not absolute assurance.

### Our framework for risk governance

We have a 'three lines of defence' model of risk management, as illustrated below.

#### Board

- Responsible for ensuring that risk is effectively assessed and managed across the Group.
- Determines the Group's risk appetite.
- Overall responsibility for monitoring and reviewing the effectiveness of risk management and internal control systems.
- Reviews the Group's emerging and principal risks.

#### Audit Committee

- Monitors the Group's internal financial controls and internal control and risk management systems.
- Supports the Board's robust review of the above.
- Approves the internal audit programme.

#### First Line

**Executive Risk Owners**

- Own the corporate risks and perform bi-annual reviews of these risks.
- Ensure that risks are identified, assessed, adequately controlled and mitigated.
- Review and identify existing and emerging risks with the assistance of the risk management function.

**Business Risk Owners**

- Responsible for ensuring that risks are managed within agreed risk appetite limits.
- Drive design and implementation of controls.
- Review, identify and assess existing and emerging risks with the assistance of the risk management function twice a year.

#### Second Line

**Risk Steering Group**

- Review and develop Risk Universe and controls environment.
- Oversee the development of the Group's risk monitoring, assessment and reporting processes.
- Ongoing consideration of horizon scanning and emerging risks.
- Oversight to ensure effective incident management processes.

**Risk Management Function**

- Manage and report on the risk registers.
- Work with and challenge risk owners to assess risk and identify controls.
- Implement risk management processes and framework improvements.

#### Third Line

**Internal Audit**

- Agree internal audit programme in conjunction with Group Risk Register.
- Conduct internal audit programme and report to the Audit Committee.
- Respond to issues as they arise and amend the audit programme accordingly.

## How we identify and monitor risk

Our approach to risk identification is illustrated by the following diagram of our Enterprise Risk Management Universe and is described in more detail in the following pages. The adoption of an Enterprise Risk Management Universe enables a consistent approach to the identification, management, reporting and oversight of risks.

### Principal Risks

### Corporate Risks

Underpinned by an Enterprise Risk Management Universe, assigned executive risk custodians and used to manage our business risk appetite.

| Business Development | Operational | Compliance | Financial |
|---|---|---|---|
| Business Development | Product Design, Production & Service | Legal & Regulatory Compliance | Financial Market |
| Business Implementation | Marketing & Sales | Health, Safety & Wellbeing Compliance | Balance Sheet Strength & Credit |
| Brand, Trust & Reputation | Customer Service | | Financial Processing & Reporting |
| Planning, Forecasting & Performance | Stock, Warehousing & Distribution | | |
| | Key Suppliers & Supplier Management | | |
| | People | | |
| | Critical Systems, Information Security | | |

### Component Risks

Map to corporate risks providing a more granular risk categorisation and reporting capability.

### Business Risks

Under the management of and assessed by 20 key business entities, mapped to component risks.

| | | | |
|---|---|---|---|
| Central Finance | Legal & Compliance | Customer Services | Product |
| Finance Operations | Brand Marketing | IT Infrastructure & Services | Group Property |
| Total Platform | eCommerce | IT Development | 3rd Party Brands & LABEL |
| Treasury | Retail | Product Operations | Lipsy Group |
| Commercial Finance | Human Resources | Warehousing | NEXT Sourcing |

# RISKS AND UNCERTAINTIES

The business has been divided into 20 operational areas for risk management, where local business risks are identified, assessed and managed.

Business risks are identified bottom up through discussions with operational area owners and mapped to components of our Risk Universe for reporting purposes. Components are then mapped to executive owned corporate risks, which in turn are mapped to the principal risks that may impact our ability to achieve our business objectives. The principal risks and key business risks are also subject to a top down review and challenge process.

Business risks are logged in an integrated risk management system and each business risk has a named owner. A standard 5x5 risk matrix is used to assess the potential impact of each risk measured in terms of the financial impact and the likelihood of the risk crystallising within a two year timeframe. The assessment considers both the inherent risk (before any mitigating controls) and residual risk (after mitigating controls are applied).

Each business entity risk register is assessed through a three stage management sign off process: initially with the relevant business risk assessor (a senior manager) then via the business entity owner (operational director level), and finally with the executive director who is assigned as the corporate risk owner. The assessment includes consideration of the key controls and the resulting reduction in risk.

The ongoing review and development of the Enterprise Risk Management Universe and controls environment is the responsibility of the Risk Steering Group. The Risk Steering Group is chaired by the Company Secretary & Legal Director and has responsibility for providing direction and support to the management of risk across the Group. It meets bi-monthly and its activities include:

- Establishing clear governance and accountability for risk and any associated (remediation) activities.
- Providing a point of escalation for critical or emerging risks.
- Providing the Board and Audit Committee with sufficient information to enable them to discharge their risk reporting requirements.
- Reviewing the corporate level risks, informed by the most significant business risks assessed across all business entities.
- Ongoing consideration of horizon scanning, any gaps and assessment of significant risk events.
- Annual benchmarking against the published principal risks of peers, particularly those operating in the retail and consumer credit sectors.

The key features of our risk governance, assessment and monitoring processes are:

- Robust risk identification processes – the bottom up identification of risks is supplemented by top down review by executive directors. The Risk Steering Group also supports the risk identification process by: (1) ensuring that the risks or control issues that give rise to any significant incidents are adequately and accurately captured in the Risk Universe; and (2) assisting with the assessment of emerging risks.
- Clear risk ownership and accountability – each business risk has an owner and each corporate risk has an executive director owner.
- Target business risk appetite and oversight – as corporate risk owners, the executive directors are responsible for setting the risk appetite (subject to Board agreement) and overseeing the appropriateness of risk mitigation through designated governance groups. Each principal risk is also mapped to one or more key operational/governance meetings to ensure there are no gaps in our coverage and monitoring of those risks.
- Consistency – our 5x5 risk scoring matrix is used to drive consistency of risk assessment and quantification. Inherent risk and residual risk is measured, with each business risk assessed both before and after mitigating controls are applied.
- Key control activities are captured – these are the control activities the business places reliance on to manage risk within target appetite and are subject to Internal Audit review and monitoring.

## Evaluation of the effectiveness of risk management and internal control systems

The evaluation of the effectiveness of the Group's risk management and internal control systems for all parts of the business has been carried out twice during the year. This covered all material financial, operational and compliance controls. The evaluation process involved the following:

- Executive director review – the most significant corporate level risks of the Group, as identified by the risk management process, and their associated controls, were assessed in detail by the executive directors. The objective of this top down review was to ensure that the appropriate risks had been accurately captured within the risk management processes described above, that adequate controls were in place to mitigate these risks and that their potential impact had been robustly assessed. The executives also considered the appropriateness of the principal risks identified.
- Audit Committee review – at the November 2022 meeting, management presented the Committee with details of the risk management processes, including the Risk Universe, the risk scoring matrix methodology and the ownership and oversight of risks. The Committee also considered the nature and circumstances around significant risk events that had occurred during the year to assess whether they suggested significant failure or weakness in internal controls. An internal financial controls matrix summarising the key processes and oversight of the Group's financial controls was reviewed, with input from senior finance management. The Committee also satisfies itself that management's response to any financial reporting or internal financial control issues identified by the external auditor is appropriate.
- Board review – at the January 2023 meeting, the Board undertook its formal review of the effectiveness of the risk management systems of the Group. Management supported this review by presenting information about the Group's risk management systems and processes, the output of the reviews undertaken by the Audit Committee and the executive directors, information about the most significant business risks and a summary of the type and regularity of key executive director led risk governance meetings, mapped to the principal risks.

To support the Audit Committee and Board in discharging their responsibilities, they were provided with the following information:

- Relevant extracts regarding their responsibilities with regard to risk from the Corporate Governance Code, the FRC Guidance on the Strategic Report and also on Risk Management, Internal Control and Related Financial and Business Reporting.
- A review of the Principal Risks identified by other comparable listed companies. This helps to ensure that there are no material gaps in our risk identification or impact assessment.

Following the evaluation process described above, the Board is satisfied that the material controls have been operating effectively for the financial year to January 2023 and up to and including the date of this Annual Report (see page 123 for further details). No significant failings of internal control were identified during these reviews.

The business will continue to review opportunities to develop, strengthen and improve the effectiveness of our risk management and internal control systems. Planned improvements in the year ahead include ensuring that key controls are documented and reviewing how and when they are tested.

## Climate risk

We have identified the risks posed to NEXT by climate change and how they might impact our business. The risks include the short to medium term impacts including transitional changes (for example, legislation and financial) which we closely monitor, as well as the long term emerging risk of climate change (for example, physical changes including the increased likelihood of flooding events) for which we have undertaken an analysis of our key product sourcing locations. Having assessed and modelled the risks, we believe that the short to medium term climate-related risks are not material for our business, although we recognise that we will need to keep abreast of future climate change legislation as well as consumer preferences. The risks relating to climate change are therefore an integral part of several of our principal risks, but are not currently considered to be a separate principal risk of the business.

The environmental and climate change related risks are overseen by the ESG Steering Group, supported by the Risk Management team and are reported to the executives and ultimately the Board. Further details regarding NEXT's climate risks are provided in our TCFD disclosures on pages 89 to 96.

## Risk appetite

Our approach to risk management aims to bring controllable risks within our appetite and enable our decision making to balance uncertainty against the objective of building shareholder value through long term, sustainable returns for our shareholders and other stakeholders. On page 70 we detail our core principles of doing business and how those principles contribute to managing the business objectives within the Board's risk appetite. Our financial disciplines ensure that each of our business divisions make net margins that are sufficient to allow them to withstand the inevitable vagaries of any consumer facing business. We also ensure that we make healthy returns on capital employed, commensurate with the risks involved in our sector.

## Emerging risks

Identification and review of emerging risks are integrated into our risk review process. Emerging risks are those risks or combinations of risks which are often rapidly evolving for which the impact and probability of occurrence have not yet been fully understood and consequently the appropriate mitigations have not yet been fully identified. All risk owners and managers within the business are challenged to consider emerging risks and this is enhanced by formal horizon scans by the executive directors and the Risk Steering Group, and reviewed by the Audit Committee and Board. Key emerging risks that we are monitoring include the uncertain economic and geopolitical external environment and its potential impact on our business and customers (see page 48 for further information), and the impact of increasing focus on ESG issues, particularly carbon emissions reduction (see page 91).

## Black swan events

The Audit Committee has reviewed the way in which very large and disruptive events would be managed by the business. This review included looking at the learnings from the way the management team responded to the pandemic, the resilience of the business, the various liquidity levers available to it (with associated estimated quantums and timescales), the business impact assessment process and continuity plans in place. A simulation exercise was successfully undertaken in the year to test the effectiveness of our major incident processes.

# RISKS AND UNCERTAINTIES

## Assessment of principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the principal risks and uncertainties facing the Group, including any emerging risks and those that would threaten its business model, future performance, solvency or liquidity. Please refer to the Corporate Governance Report on page 117 for further details. After review, the Board agreed that no changes were necessary to the principal risks and uncertainties this year. They did, however, agree to changes to some of the principal risk trends, as indicated in the following pages.

The principal risks are described below, together with an explanation of how they are managed or mitigated.

The Board is committed to ensuring that the key risks are managed on an ongoing basis and the business operates within its risk appetite and took into consideration the principal risks of the business when it assessed the long term viability of the business. Although these risks all have the potential to affect future performance, work is undertaken to mitigate and manage these risks such that they should not threaten the overall viability of the business over the three year assessment period (see the viability assessment on page 83).

## Risk trend

↑ Increasing

↔ Unchanged

↓ Decreasing

## Link to strategy

- ● (red) Improving and developing our product ranges
- ● (light green) Maximising the profitability of retail selling space
- ● (purple) Increasing the number of profitable NEXT Online customers
- ● (light blue) Managing margins
- ● (orange) Focusing on customer experience and satisfaction
- ● (dark blue) Maintaining the Group's financial strength
- ● (green) Generating and returning surplus cash to shareholders

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

### Business strategy development and implementation

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

| | |
|---|---|
| Link to strategy | ● ● ● ● ● ● ● |
| Risk trend | ↔ |

- The Board reviews business strategy on a regular basis to determine how sales and profit can be maximised and business operations made more efficient.
- The Chief Executive provides regular updates at Board meetings regarding key opportunities and progress of major initiatives.
- Our International Online business, third-party LABEL business and Total Platform provide geographic and product diversification.
- Our disciplined approach to sales, budgeting, stock control, investment returns and cost control ensures the Company continues to generate strong profits and cash flows.
- The Board and senior management consider strategic risk factors, wider economic and industry specific trends that affect the Group's businesses, the competitive position of its products and the financial structure of the Group.
- A detailed plan to manage the business going forward and its longer term direction of travel exists and is clearly articulated to our stakeholders in our annual and half yearly reports.
- Longer term financial scenarios for our Retail business have been prepared and stress tested. This process provides a mechanism for ensuring that business profitability is maximised through efficient allocation of resources and management of costs.

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

## Product design and selection

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

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

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

| | |
|---|---|
| **Link to strategy** | ● ● ● |
| **Risk trend** | ↔ |

- Executive directors and senior management continually review the design, selection and performance of NEXT product ranges and those of other brands sold by NEXT.
- LABEL brands (along with our Beauty business) have served to increase the breadth of our Online offer far beyond NEXT's natural design, fashion and price boundaries. Just as important are the numerous ways in which our own NEXT product ranges have been extended and diversified.
- Executive directors and senior management regularly review product range trends to assess and correct any key selection or product issues. Corrections to significant missed trends or poorer performing ranges are targeted for amendment, with alternative products being sourced within six months where necessary.
- Senior product management approve quality standards, with in-house quality control and testing teams in place across all product areas.
- Senior management regularly review product recalls and product safety related issues.

## Key suppliers and supply chain management

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

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

Non-compliance by suppliers with the NEXT Code of Practice may undermine our reputation as a responsible retailer.

| | |
|---|---|
| **Link to strategy** | ● ● |
| **Risk trend** | ↓ |

- Post pandemic, there is improved product availability with reduced costs.
- Stock availability is reviewed on an ongoing basis and appropriate action taken where service or delivery to customers may be negatively impacted.
- Management continually seeks ways to develop our supplier base to reduce over-reliance on individual suppliers and to maintain the quality and competitiveness of our offer. The Group's supplier risk assessment procedures establish contingency plans in the event of key supplier failure.
- Existing and new sources of product supply are developed in conjunction with NEXT Sourcing, external agents and/or direct suppliers.
- We have Code of Practice Principle Standards that set out the standards we expect for supplier production methods, employee working conditions, quality control and inspection processes.
- Our in-house global Code of Practice team carry out regular audits of our product-related suppliers' operations to ensure compliance with the standards set out in our Code. Further details are set out on page 100.
- We train relevant employees and communicate with suppliers regarding our expectations in relation to responsible sourcing, anti-bribery, human rights and modern slavery.
- The Audit Committee receives Code of Practice updates from senior management during the year.
- The Audit Committee receives modern slavery and anti-bribery training progress updates together with whistleblowing reports at each meeting. Significant matters are reported to the Board.

# RISKS AND UNCERTAINTIES

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

## Warehousing and distribution

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

Increasing choice in the products NEXT sells has been central to the development of our Online platform but the proliferation of unique items, along with a shift from Retail to Online sales has presented our warehouse operations with significant challenges.

| | |
|---|---|
| Link to strategy | ● ● ● |
| Risk trend | ↓ |

- Our new, boxed warehouse, Elmsall 3 has begun its phased opening to deliver new capacity and automation.
- Planning processes are in place to ensure there is sufficient warehouse handling capacity for expected future business volumes over the short and longer terms.
- Service levels, warehouse handling, inbound logistics and delivery costs are continually monitored to ensure goods are delivered to our warehouses, Retail stores and Online customers in a timely and cost-efficient manner.
- Our warehouse leadership team meets regularly to assess the opportunities and risks in our warehouse and distribution network.
- Business continuity plans and insurance are in place to mitigate the impact of business interruption.
- The Board has approved and keeps under regular review an extensive warehouse investment programme to accommodate further Online growth and transfer in customer demand from Retail to Online (see page 57 for further details).

## Business critical systems

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

As detailed in the Strategic Report, our business has increased reliance on technology and the development of business ideas within the Group (such as Total Platform) increases that reliance further.

| | |
|---|---|
| Link to strategy | ● ● |
| Risk trend | ↔ |

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

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

## Management of long term liabilities and capital expenditure

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

| | |
|---|---|
| **Link to strategy** | ●●●● |
| **Risk trend** | ↓ |

- Our predominantly leased store portfolio is actively managed by senior management, with openings, refits and closures based on strict store profitability and cash payback criteria.
- We undertake regular reviews of lease expiry and break clauses to identify opportunities for exit or renegotiation of commitments. Leases will not be automatically renewed if acceptable terms are not agreed.
- The Board regularly reviews our lease commitments, new store openings and potential store closures.
- We ensure that we make healthy returns on capital employed, commensurate with the risks involved in our sector (in practical terms this means a return of no less than 15% on capital invested).
- Appropriate amortisation accounting policies reduce the risk of an unexpected significant write-off.

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

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

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

| | |
|---|---|
| **Link to strategy** | ●● |
| **Risk trend** | ↓ |

- We operate an Information Security and Data Privacy Steering Committee. Its main activities include agreement and monitoring of related key risks, activities and incidents. The Committee comprises of two executive directors and relevant senior management.
- Significant investment in systems development and security programmes has continued during the year, complemented by in-house dedicated information and physical security resources.
- Systems vulnerability and penetration testing is carried out regularly by both internal and external resources to ensure that data is protected from corruption or unauthorised access or use.
- Critical systems backup facilities and business continuity plans are reviewed and updated regularly.
- Major incident simulations and business continuity tests are carried out periodically.
- We have reduced our cyber risk vulnerabilities through a dedicated programme of work with third-party support.
- IT risks are managed through the application of internal policies and change management procedures, imposing contractual security requirements, service level agreements on third-party suppliers, and IT capacity management.
- All staff and contractors are required to read, accept and comply with the Group's data protection and information security policies, which are kept under regular review and supported by training.
- Information security and data protection risk exposures are reviewed during the year by both the Audit Committee and the Board; this informs an executive-sponsored programme of continuous improvement.

# RISKS AND UNCERTAINTIES

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

## Financial, treasury, liquidity and credit risks

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

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

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

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

NEXT is also exposed to credit risk, particularly in respect of our Online customer receivables, which at £1.3bn represents the largest item on the Group Balance Sheet.

| | |
|---|---|
| Link to strategy | ● ● ● |
| Risk trend | ↔ |

- NEXT operates a centralised Treasury Function which is responsible for managing liquidity, interest and foreign currency risks. It operates under a Board approved Treasury Policy. Approved counterparty and other limits are in place to mitigate NEXT's exposure to counterparty failure. Further details of the Group's treasury operations are given in Note 28 to the financial statements.
- The Group's debt position, available liquidity and cash flow projections are regularly monitored and reported to the Board. The Board will agree funding for the Group in advance of its requirement to mitigate exposure to illiquid market conditions.
- The Board keeps under review the cash generation levers available to it, including the potential quantum and timescales of initiatives to reduce debt and realise cash.
- NEXT has a Treasury Committee which includes the Group Finance Director. The Treasury Committee usually meets weekly to review the Group's treasury and liquidity risks including foreign exchange exposures.
- Rigorous procedures are in place with regards to our credit account customers, including the use of external credit reference agencies and applying set risk criteria before acceptance. These procedures are regularly reviewed and updated.
- Continual monitoring of our credit customers' payment behaviours and credit take-up levels is in place.
- The Board and Audit Committee receive regular updates throughout the year regarding the customer credit business.

## Legal, regulatory and ethical standards compliance

NEXT must continuously adapt to the increasingly broad, stringent and fast-evolving regulatory framework applicable to the operation of the Group's customer credit business, e.g. implementation of the Consumer Duty.

With the growing reliance on our digital online and marketing activities, the Group could inadvertently process customer or employee data in a manner deemed unethical or unlawful.

Failure to have appropriate processes for the above in place could result in significant financial penalties, remediation costs, reputational damage and/or restrictions on our ability to operate. This is against a backdrop of:

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

With regards to climate risk, stakeholder expectations and regulatory attention could develop at pace, impacting the rate at which the business may need to cut carbon emissions.

| | |
|---|---|
| Link to strategy | ● ● |
| Risk trend | ↑ |

- Policies and training are in place for those employees and contractors working in the business areas. These are kept under review and updated.
- A dedicated financial regulatory compliance and quality assurance team monitors compliance and any changing requirements, working with external advisers as required.
- NEXT has identified a set of conduct and compliance risks, documented in a business risk register, with owners and associated controls.
- Key risk and control performance indicators are managed through a series of operational meetings and reported quarterly to the Retail Credit Board.
- We operate an Information Security and Data Privacy Steering Committee. Its main activities include agreement and monitoring of related key risks, activities and incidents. The Committee comprises two executive directors and relevant senior management.
- With regard to climate risks, the transitional (including regulatory requirements) and physical risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies will be kept under review using the TCFD framework. Climate risk, regulatory changes and stakeholder expectations are considered on an ongoing basis by our ESG Steering Group and Audit Committee.

# VIABILITY ASSESSMENT



## Statement of viability

The directors have assessed the prospects of the Group by reference to its current financial position, its recent and historical financial performance and forecasts, its business model and strategy (pages 70 to 71) and the principal risks and mitigating factors described on pages 76 to 82. In addition, the directors regularly review the financing position of the Group and its projected funding position and requirements.

The Group is operationally and financially strong and has a long track record of consistently generating profits and cash, which is expected to continue both in the short and long term. In each of the last three financial years, despite the impact of the pandemic and the enforced closure of its stores for significant periods the business continued to generate high levels of cash before distributions.

The Group has maintained its net debt (excluding leases) comfortably within its available facilities with headroom of £0.5bn. One of these facilities, the revolving credit facility of £450m, expires in November 2024 and the 2025 Bond matures during the period of the viability assessment. The Board expects to replace or renew these facilities well ahead of their maturity and, given the current investment grade credit rating of the business and its strong recent performance, considers it a reasonable expectation to secure a similar level of financing. The assessment of the viability of the Group is not, however, dependent on securing this financing.

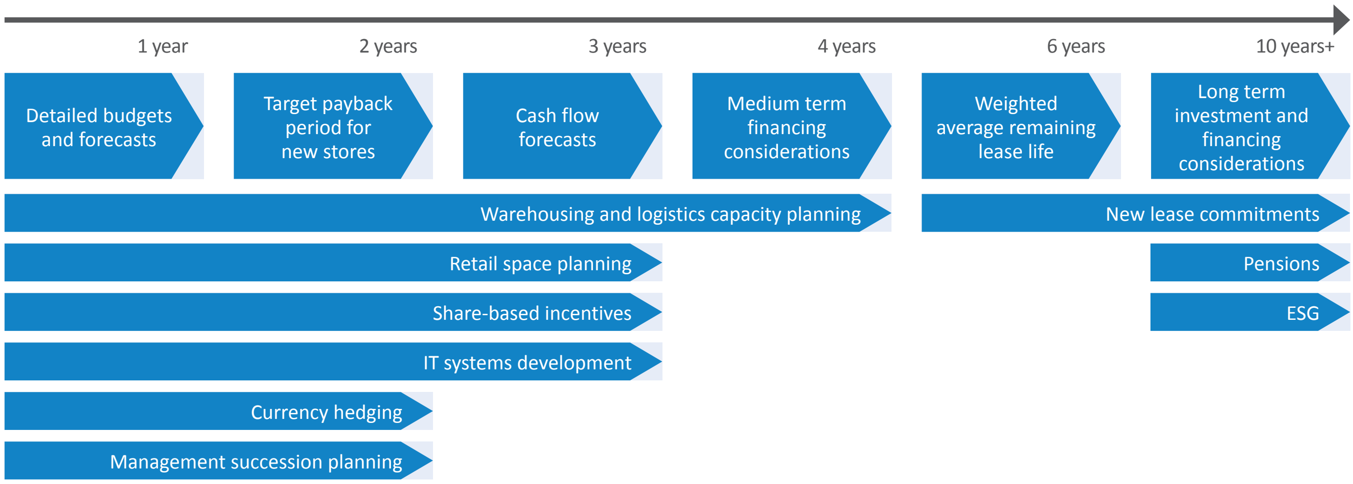
The Board considers that this headroom, coupled with the highly cash generative nature of the business and the available cash levers (described overleaf) provide a strong degree of financial resilience and flexibility.

### Assessment period

The retail sector is inherently fast paced, competitive and dynamic, particularly in respect of the fashion product cycle. However, as illustrated in the diagram below, a wide variety of other time horizons are also relevant in the management of the business.

The directors have assessed the viability of the Group over a three year period, as they believe this strikes an appropriate balance between the different time horizons which are used in the business and is a reasonable period for a shareholder to expect a fashion retail business like NEXT to be assessed over.

Within its assessment the Board has also given consideration to the maturity profile of its existing debt facilities. In particular, a significant portion of the Group's external bond debt matures in 2025 and 2026. If the Group's current performance was maintained into 2025 and 2026, then the directors consider the business would have sufficient funds to repay or secure refinancing of the bonds as they mature.



# VIABILITY ASSESSMENT

## Assessment of viability

Viability has been assessed by:

- Preparation of a three year viability model, with year one based on our profit guidance for the year ending January 2024 (see page 25) of £795m and a cash generation, before distributions, in excess of £450m. Thereafter it assumes that the Group sales and profit remain flat with a decline in Retail sales being offset by growth in the Online and Finance divisions. This is considered a base case model for viability testing purposes.
- 'Top down' sensitivity and stress testing is then applied to this model. This included a review of the three year cash projections which were then stress tested to determine the extent to which sales, and hence trading cash flows, would need to deteriorate before breaching the Group's facilities or financial covenants. This was both before and after anticipated shareholder distributions, and assuming that any bank facilities which expire during the period are not replaced. The current facilities of the Group include a revolving credit facility of £450m and it has financial covenants across its debt relating to interest cover, gearing and an EBIT to debt ratio.
- This testing indicated that the business could withstand a sustained decline in sales, against its base case, across the entire business, of more than 20% over a 12 month period and still remain within its existing financing facilities and covenants. This assessment did not require the business to seek any additional or new external financing.
- Specific consideration was also given to the impact caused by a "black swan" event which results in a significant and sustained disruption to the business. This scenario modelled the impact of the total closure of the business for two months followed by a gradual recovery in sales over a six month period. In this scenario, the business was able to remain within its finance facilities and covenants through the use of mitigating actions, including the sale of shares in the ESOT and the deferral of non-essential capital expenditure.
- Considering the likelihood and impact of severe but plausible scenarios in relation to each of the principal risks as described on pages 76 to 82. These principal risks were assessed, both individually and collectively, taking into consideration a broad range of mitigating actions and cash levers that might be utilised in particular situations. These mitigating actions, some of which the Group used during the COVID pandemic, include a mix of cost saving measures (such as a deferral of capital expenditure and cancellation of stock purchases) and the ability to realise additional cash inflows from financing or other initiatives (such as the sale of ESOT shares or assets). Whilst all the principal risks have the potential to affect future performance, none of them are considered likely either individually or collectively to give rise to a trading deterioration of the magnitude indicated by the stress testing and to threaten the viability of the business over the three year assessment period.

## Viability statement

Based on this review, the directors confirm that they have a reasonable expectation that the Group will continue to meet its liabilities as they fall due over the three year period.

# CORPORATE RESPONSIBILITY

Contents



## What being a responsible business means to us

**As an international fashion, homeware and beauty business, what we do and how we do it has an impact on the people and the world around us. Our stakeholder relationships are key to our success and inform our decision making on Environmental, Social and Governance (ESG) matters, now a widely recognised term for what we have always valued – doing the right thing.**

Whilst ESG reporting frameworks continue to evolve, we are also making progress towards the various targets we set ourselves in relation to more sustainable practices with regard to people and the planet. Behind the scenes a great deal of work is underway to set solid foundations for a realistic and achievable transition plan to reach Net Zero.

Global issues such as responsible sourcing, human rights and climate change remain key areas of focus. Within this report you can read about:

- Our disclosures under the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).
- Our progress towards a number of our environmental strategic goals, such as our Responsible Sourcing Strategy, which aims to source 100% of our main raw materials through known, responsible or certified routes by 2025.
- The progress we have made towards our Science Based Target Initiative (SBTi) approved carbon emission reductions for Scope 1, 2 and Scope 3.
- The range of commitments and initiatives we are working on to improve the wellbeing of our people.
- Our progress on waste, packaging and recycling throughout the business.
- The activities of our internal Code of Practice (COP) team, who continue to work with our suppliers worldwide to meet appropriate labour standards.

As always, the safety and wellbeing of our colleagues is always our top priority. During the year, we continued to increase resources on our wellbeing website for employees, as well as running face to face chat sessions with our mental health first aiders and holding a winter wellness festival to support a wide range of wellbeing events and activities.

More information can be found in the Group's Corporate Responsibility Report which is published on our corporate website at nextplc.co.uk.

## Our principles

The principles underpinning our aim to do business responsibly are unchanged; we seek always to:

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

Our business activities impact a wide range of stakeholders and we strive to make this impact a positive one. Our purpose is to provide our customers with beautifully designed, excellent quality products; these products need to be well made, functional, safe and responsibly sourced in a way which respects the environment and the people and animals within our supply chain.

We continue to implement the United Nations Guiding Principles on Business and Human Rights and align our work with the United Nations Sustainable Development Goals (SDGs) that are most relevant to our business operations and products.

The following pages describe how we uphold our principles in relation to our stakeholders and the work we are doing to reach our SDGs.

**Amanda James**
Group Finance Director

A James

29 March 2023

We are a member of several leading forums, where we collaborate with others to adopt more sustainable ways of working. These include:

# CORPORATE RESPONSIBILITY

## ENVIRONMENT

**Our environmental reporting comprises a number of sections:**



### Our commitment

We are committed to minimising our environmental impact by reducing the carbon intensity of our activities and the natural resources we use.

#### Rankings

Our efforts around ESG are reflected in the following external benchmarks:

- Constituent of the FTSE4Good Index.
- Sustainalytics: 15.7 risk rating (low risk), ranked 125 out of 493 in our industry (retail).
- MSCI: ESG rating AA (Leader).
- CDP: Climate change: B, Forests: B-, Water security: B.

### Greenhouse gas emissions – Streamlined Energy and Carbon Reporting (SECR)

In accordance with the disclosure requirements for listed companies under the Companies Act 2006, the table below shows the Group's SECR disclosure across Scope 1 and 2 together with an appropriate intensity metric and our total energy use of gas, electricity and other fuels during the financial year. The reported emissions data includes NEXT plc and its wholly owned subsidiaries only.

| | | 2023 | | 2022 | |
|---|---|---|---|---|---|
| **Greenhouse Gas (GHG) Emissions**[1] | Unit | UK | Global | UK | Global |
| Scope 1[2] | tonnes $CO_2e$ | **42,170** | **43,165** Ⓐ | 41,832 | 42,616 (RS) |
| Scope 2 – Location Based[3] | tonnes $CO_2e$ | **39,085** | **43,323** Ⓐ | 42,229 | 47,334 |
| Scope 2 – Market Based[4] | tonnes $CO_2e$ | **1,443** | **5,638** Ⓐ | 1,274 | 6,379 |
| **Total Scope 1 & 2 Location Based** | **tonnes $CO_2e$** | **81,255** | **86,488** Ⓐ | 84,061 | 89,950 |
| **Total Scope 1 & 2 Market Based** | **tonnes $CO_2e$** | **43,613** | **48,803** Ⓐ | 43,106 | 48,995 |
| **Energy consumption**[5] | | | | | |
| Electricity Purchased | kWh | **202,113,133** | **209,139,917** | 200,219,142 (RS) | 208,580,301 (RS) |
| Renewable Electricity Generated | kWh | **5,369,622** | **5,369,622** | 1,592,402 (RS) | 1,592,402 (RS) |
| Natural Gas | kWh | **42,609,114** | **42,784,844** | 54,217,977 | 54,675,195 |
| Gas Oil | kWh | **1,418,671** | **1,418,671** | 2,146,797 | 2,146,797 |
| Diesel | kWh | **135,689,785** | **137,171,470** | 127,356,106 | 127,798,783 |
| Petrol (including plug-in hybrid) | kWh | **3,671,175** | **3,909,360** | 3,116,535 | 3,305,531 |
| LPG | kWh | **–** | **282,823** | – | 371,036 (RS) |
| Total Energy Consumption | kWh | **390,871,500** | **400,076,707** Ⓐ | 388,648,959 (RS) | 398,470,045 (RS) |
| **Intensity metric**[6] | | | | | |
| Location Based | tonnes of $CO_2e$/total sales (£m) | **15** | **16** Ⓐ | 17 | 19 |
| Market Based | tonnes of $CO_2e$/total sales (£m) | **8** | **9** Ⓐ | 9 | 10 |

1. The methodology used to calculate our emissions is set out in our Reporting Principles and Criteria which can be found on our corporate website at nextplc.co.uk.
2. Scope 1 being emissions from combustion of fuel and refrigerant gas losses.

3. Scope 2 being electricity (from location based calculations), heat, steam and cooling purchased for the Group's own use.
4. The calculation of market based emissions is based on our energy suppliers fulfilling their contractual obligations under the terms of renewable tariffs to back all energy supplied to all of its customers on such tariffs by Renewable Energy Guarantees of Origin (REGOs). We have no oversight over that process.
5. Energy from electricity, natural gas, gas oil, transport fuel and LPG have been included. We have used the conversion factors published in 2022 Defra GHG conversion factors for company reporting to convert from passenger miles in company-owned vehicles to kWh.
6. We use tonnes of $CO_2e$/Total Sales (£m) sales as our intensity metric with sales of £5.4bn. Our intensity metric has reduced year-on-year as a result of both energy efficiency initiatives and an increase in our total sales.

Ⓐ Pricewaterhouse Coopers LLP ('PwC') have performed an Independent Limited Assurance engagement on selected balances for the year ended 28 January 2023, shown with the symbol Ⓐ, in accordance with the International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' and International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board. The Independent Limited Assurance Report can be found on our corporate website at nextplc.co.uk along with our 2023 Reporting Principles and Criteria, the basis on which the KPIs are calculated and on which the limited assurance is given, at nextplc.co.uk/corporate-responsibility/a-summary-of-our-approach.

RS Restated from prior year due to improved data availability and a further breakdown between purchased and generated electricity.

Energy consumption data is captured through monthly bills showing actual or estimated consumption. We continue to look for ways to improve energy efficiency as this reduces both carbon emissions and costs for our business. We actively track and review energy performance via a central data collection facility to ensure our properties are operating efficiently. The following initiatives were undertaken during the year:

- Continued to invest in high efficiency LED lighting which are now in 55% of our retail stores. These reduced our lighting energy consumption by around 75% in comparison to the lighting replaced. The LED lighting solutions are fitted in new stores as standard. During the year we plan to refit 100 stores, and aim to have the balance of stores' lighting replaced in 2024/25.
- Solar panel installation is complete at our Elmsall 3 warehouse. The renewable electricity generated in the year increased by 3.78m KwH relative to 2021/22.
- Maintained our Energy Forums, working closely with our energy provider and other parties to actively identify opportunities in energy efficiency measures and technology to help reduce our environmental impact and deliver savings for the business. This included looking at Power Purchase Agreements for longer term commitment to renewable energy usage.

### Renewable energy

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

## Carbon emissions calculations

Last year was our first year reporting our non-assured Scope 3 emissions, since then, data sources have increased and our ability to differentiate on a more granular level has improved our accuracy. This year we have been working to make our process for calculating emissions more efficient and scalable. This was necessary as, over time, our product ranges and the materials used increased in number and complexity.

During that work we identified an error in our calculation method where we had been double counting the weight of some items leading to both a higher Scope 3 baseline and higher calculated figures since that baseline was established. This error had no impact on our Scope 1 , Scope 2 and in relation to Scope 3, business travel, downstream transportation and distribution and waste generated in operations, data.

We have also improved our methodology for calculating emissions. The overall impact of the double counting and improved methodology is that we believe our baseline for Scope 3 is 25% lower than initially calculated and our Scope 3 emissions for 2022 were 30% lower than previously calculated.

The journey to reduce the carbon intensity of NEXT has also been more successful than previously understood. From our baseline 2019/20 figures to January 2022 we improved by 22% and at the end of this financial year in January 2023 that figure had further improved to a total reduction of 30% against our restated 2019/20 baseline.

The figures in the SECR table on page 86, the GHG emissions table on page 88 and the metrics and targets table on page 94 use our improved calculation methods. Where necessary we have restated prior year figures for an accurate reflection of our progress. Where a number has been restated, it is marked with the symbol RS.

# CORPORATE RESPONSIBILITY

## Carbon footprint – including Scope 3

Due to the nature of our business, most of our carbon footprint falls outside of our direct control and is reported under our Scope 3 emissions. Our Scope 3 total emissions disclosure ($CO_2e$) covers the complete lifecycle of all the products we sell, including branded items sold through LABEL and Total Platform. This extends from the production of raw materials through to the manufacture, transport, how our customers use and care for them and the eventual end of life treatment of the products we sell. The emissions have been estimated in line with the GHG Protocol Corporate Accounting and Reporting Standard and are based on a combination of internal data coupled with the best available public sources on $CO_2$ emissions factors using conservative assumptions.

Our total Scope 3 emissions are reported in the table below, together with our Scope 1 and 2 (location based) emissions. Our carbon reduction targets are set out on page 94.

| Greenhouse Gas (GHG) Emissions[1] | 2023 Tonnes | 2022 Tonnes | Var % |
|---|---|---|---|
| Scope 1 | **43,165** | 42,616 | 1.3% |
| Scope 2 – Location Based | **43,323** | 47,334 | -8.5% |
| Scope 3 | **2,119,736** | 2,102,748 (RS) | 0.8% |
| **Total Carbon** | **2,206,224** | 2,192,698 (RS) | 0.6% |
| **Scope 1** | | | |
| Gas Heating (stores, offices, warehouses) | **7,810** | 10,014 | -22.0% |
| NEXT Owned Distribution Vehicles | **32,054** | 29,881 | 7.3% |
| NEXT Owned Cars | **1,450** | 1,490 | -2.7% |
| Building (diesel, oil, refrigerant gases) | **1,789** | 1,231 | 45.4% |
| Machinery (LPG) | **61** | 80 (RS) | -24.2% |
| **Scope 2** | | | |
| NEXT Group Energy Consumption | **43,323** | 47,334 | -8.5% |
| **Scope 3** | | | |
| Purchased Goods and Services | **1,316,108** | 1,299,030 (RS) | 1.3% |
| Use of Sold Products | **559,223** | 528,952 (RS) | 5.7% |
| Upstream Transportation and Distribution | **81,087** | 108,947 (RS) | -25.6% |
| Downstream Transportation and Distribution | **65,813** | 71,585 | -8.1% |
| Employee Commuting | **20,933** | 20,336 | 1.6% |
| Fuel and Energy Related Activities | **26,811** | 26,384 | -5.5% |
| End of Life Treatment of Sold Products | **19,268** | 19,748 (RS) | -2.4% |
| Capital Goods | **23,576** | 24,951 | -5.5% |
| Business Travel | **5,428** | 1,533 | 254.1% |
| Waste Generated in Operations | **1,489** | 1,283 (RS) | 16.1% |

1. The methodology used to calculate our emissions is set out in our Reporting Principles and Criteria which can be found on our corporate website at nextplc.co.uk.

(RS) Restated from prior year due to improved data availability.

# Task Force on Climate-Related Financial Disclosures (TCFD)

| Index of TCFD recommended disclosures | |
|---|---|
| **1. Governance** | |
| a) Describe the board's oversight of climate-related risks and opportunities | page 89 |
| b) Describe management's role in assessing and managing climate-related risks and opportunities | page 90 |
| **2. Strategy** | |
| a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term | page 91 |
| b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning | page 91 |
| c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario | page 92 |
| **3. Risk Management** | |
| a) Describe the organisation's processes for identifying and assessing climate-related risks | page 93 |
| b) Describe the organisation's processes for managing climate-related risks | page 93 |
| c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management | page 93 |
| **4. Metrics and Targets** | |
| a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process | page 94 |
| b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks | page 94 |
| c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets | page 94 |

NEXT recognises that climate change poses challenges for our business and supply chain. We are looking at the ways in which we can best support the Paris Agreement on climate to limit the rise in global temperatures to well below 2°C. Accurate and relevant disclosures are essential to demonstrate progress and ensure stakeholder accountability. Whilst reporting frameworks surrounding sustainability are still being developed and are evolving, reporting helps us set a baseline from which appropriate and meaningful actions can be taken.

## Statement of compliance

NEXT's climate-related disclosures are consistent with the recommendations and recommended disclosures of the TCFD, and in compliance with the requirements of LR 9.8.6R (UK Listing Rules). These disclosures set out how NEXT incorporates climate-related risks and opportunities into governance, strategy, risk management, what we are doing to reduce our environmental impact and our key metrics and targets.

## 1. Governance – Disclose the organisation's governance around climate-related risks and opportunities

Our governance structure around ESG-related activities is relatively simple. This allows emerging issues and matters for decisions to be escalated quickly.

### a) Describe the Board's oversight of climate-related risks and opportunities

# CORPORATE RESPONSIBILITY

The Board has delegated primary oversight of ESG activities to the Audit Committee. It decided this was appropriate given the increasing focus on the potential risks and financial impacts associated with climate change. ESG is a standing agenda item at each Audit Committee meeting and the Committee's remit includes:

- Monitoring progress against climate-related goals and targets.
- Overseeing the Company's ESG risks and opportunities.
- Keeping under review the materiality of climate-related risk and its impact on the financial statements.
- Monitoring adherence to externally applicable sustainability codes and principles.

### Wider governance arrangements

There are wider governance arrangements in place to support the Audit Committee and the Board in discharging their responsibilities. These include:

- The Nomination Committee is responsible for ensuring the Board has appropriate knowledge and expertise to assess the climate-related issues NEXT face in the short, medium and longer term;
- The Remuneration Committee considers whether the inclusion of ESG-related targets should be included in pay arrangements. While a specific ESG metric is not included in targets for performance related pay for executive directors, the Remuneration Committee reserves the discretion to reduce variable pay in certain circumstances which could be evoked if any material ESG failure came to light.
- An ESG Steering Group meets quarterly to oversee our ESG workstreams, targets and emerging ESG risks. Climate-related issues are central to the ESG matters the Steering Group considers.

The Steering Group is chaired by the Company Secretary & Legal Director. It is cross-functional; members include senior management from the Central Finance and Product teams as well as the Head of Supplier Ethical Compliance and the Head of Product Legislation & Sustainable Development.

The Group Finance Director, Amanda James, is the executive sponsor of ESG activities and directs the activities of the Steering Group. She meets regularly with the key members of the Steering Group, receives regular updates throughout the year and is present at Audit Committee and Board meetings to discuss ESG matters that arise. The Committee updates the Board and makes recommendations as appropriate.

## ESG STRATEGY

Meet business objectives whilst ensuring we "do the right thing" on Environmental, Social and Governance matters.

| ESG TARGETS | RESPONSIBLE BUSINESS ACTIVITY | REPORTING | CALIBRATING AND ADJUSTING |
|---|---|---|---|
| Underpinning the commitment to do the right thing with transparent, challenging but achievable targets. | Prioritising, engaging and supporting the business to move forward initiatives that assist in meeting our targets. | Internal and external reporting to measure progress and provide a level of accountability on our actions. | Taking regular stock of how we are performing against our peers and ensuring we are positioned where we want to be and where our stakeholders would expect us to be. |

### b) Describe management's role in assessing and managing climate-related risks and opportunities.

Senior management are responsible for managing on a day-to-day basis the climate-related risks and opportunities of the business. In 2021 NEXT engaged an external climate risk consulting firm to help us undertake a gap analysis against TCFD recommendations, complete a climate opportunity and risk assessment, quantify the financial impacts of those risks and opportunities and conduct a scenario analysis of business resilience under a range of climate scenarios. We explain more about the risks and opportunities on page 91 and our findings of the scenario analysis on page 92. We intend to repeat that gap analysis and risk assessment in the 2024/25 financial year.

Climate-related risks are assessed as part of our overarching risk management framework; for further information please see page 77.

Senior management hold quarterly calls with the Company's broker to obtain market updates and stay informed of the views of institutional shareholders on ESG matters, as well as regularly engaging directly with shareholders, banks, credit rating agencies and proxy advisors. During the year, we engaged directly with many of our shareholders specifically to discuss ESG matters, such as carbon emissions and responsible sourcing.

## 2. Strategy – disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material

### a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

During our initial review, we considered the transitional and physical risks and opportunities presented by rising temperatures, climate-related policy and emerging technologies and agreed on the methodology for assessing and quantifying financial impacts.

Physical risks arise out of the physical aspects of climate change, for example extreme weather events or global temperature increase. Market risks refer to changes in demand of certain products and commodities due to climate change. Transition risks are those which arise from the transition to a lower-carbon economy, such as policy changes. For the purposes of our assessment, the time horizons we used were as follows:

- Short term: present day to 2025.
- Medium term: from 2025 to 2030.
- Long term: from 2030 to 2040.

The risks identified during our analysis are more likely to present themselves in the medium or long term. Having assessed and modelled the risks, we believe that there is no material financial risk or threat to our business model in the short term. In this context, materiality, in terms of potential impact, is the threshold at which we believe a risk becomes sufficiently important to our investors and other stakeholders that it should be publicly reported. We will continue to review this as we develop our transition plan towards net zero.

The risk management recommendations arising from our climate change scenario analysis (further details on page 93) were:

**Policy/Regulation:** It is likely that increased policy and regulation will have the most significant financial impact on NEXT over the longer term. Incoming regulation and requirements such as digital product passports, corporate net zero and transition plans and Taskforce on Nature-related Financial Disclosures are expected to come into force in the next two to five years. We are already considering the investment required to meet our future obligations.

The majority of NEXT's exposure to the impact of increased policy and regulation and the area where greater understanding is being developed is in our supply chain, so continuing our supply chain mapping and engagement through the Higg Index is key to identifying and reducing our exposure. We are members of the Sustainable Apparel Coalition and this membership gives us access to a range of tools to support the standardised measurement of sustainability from our supply chain, using the Higg Index. The most significant thing the business can do to reduce exposure to this risk is to reduce the carbon intensity of its supply chain and operations.

**Market:** Climate change is expected to impact the supply and demand for certain commodities, products and services. NEXT continues to mitigate this risk by continuing to maintain balanced and diverse sourcing routes and product suppliers.

During the year we have continued to participate in industry-wide initiatives, such as the British Retail Consortium's Climate Action Roadmap and Textiles 2030. These forums have enabled us to share learnings as well as contribute to the development of metrics and measurement of improvement actions across the supply chain; for example, our active role in the Textiles 2030 Metrics Working and Advisory groups. In addition, we have begun collecting data from our supply chain using the Higg Index, and have started to use this information to identify our biggest risks and opportunities.

**Physical:** It is through playing our part in reducing the carbon intensity of our operations, that we will in turn reduce the physical climate-related risks that impact our business. Our diverse sourcing routes and product suppliers can also be a mitigating factor against physical climate-related risks.

### b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

#### Risks

We have considered the potential for the financial statements to be impacted by climate change, with a particular focus on long term assets. Of the assets on our balance sheet which might be considered to be at risk from climate change, the majority of our plant, property and equipment are warehouses, retail stores, plant and machinery and shop fittings in the UK. These assets have a useful remaining life of less than 10 years other than the leases on our Head Office and warehouses. These assets are not considered to be at material risk of any physical impacts or transitional risks arising from climate change.

Even though there is uncertainty around the time horizon over which climate risks will materialise, stakeholder expectations and regulatory attention could develop at pace, impacting the rate at which the business may need to cut carbon emissions. We recognise that we will need to keep abreast of future climate change legislation as well as consumer preferences. The retail sector is faster paced than many and there are likely to be changes in the way retailers do business in the next few years. However, we have a strong track record of evolving at pace and we are confident that we can react accordingly.

Industry trends can create shorter term risks and opportunities, as was evident during the pandemic, the current cost of living challenges and in response to the conflict in Ukraine.

#### Opportunities

We are considering the following opportunities in the medium to long term:

- Reduced energy spend through energy-saving measures which incorporate renewable energy.
- ESG related financing.
- Customer product donation schemes.
- To be seen as a climate conscious clothing producer.

# CORPORATE RESPONSIBILITY

### c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2ºC or lower scenario.

### Our climate change scenario analysis

To further understand and explore how potential climate risks and opportunities could evolve and impact our business over the medium to longer term, the TCFD recommends undertaking climate scenario analysis, which we carried out in 2021.

Climate scenarios are hypothetical plausible future states under different levels of global warming and states of transition to a low carbon world. They provide a forward looking view of how different types of climate-related risks and opportunities may impact an organisation. There are a number of scenarios that have been developed by scientific organisations which are publicly available and widely used within TCFD scenario analysis.

### Scenarios and timeframes assessed

The TCFD specifically recommends that organisations consider a set of scenarios, including a '2°C or lower scenario' in line with the 2015 Paris Agreement. This low carbon scenario is centred on 'transition' risks and looks at the rapid changes, such as policy, technology, market and reputational risks, that will be needed to cut emissions in line with the Paris Agreement. The scenario analysis should also consider 'physical' risks, such as temperature rise, sea level rise, and changes to the frequency and severity of extreme weather events, including droughts and storms. This is most relevant to our supply chain, the majority of which is based in Asia.

We examined three climate scenarios against two timeframes for the purposes of our analysis. The time frames we selected were to 2030 and 2040, to align with our long term planning horizons and with the British Retail Consortium commitment to net zero by 2040.

The three scenarios we considered were as follows:

| Scenario | Description | Reference data[1] used in analysis |
|---|---|---|
| Late transition | Sudden shift towards low carbon economy with governments making dramatic policy interventions to make up for a late start. Global average temperature increase to be kept within 2°C by 2100. | Scenario based: UNFCCC's SSP1/ UNFCCC's SSP2<br>Physical risk scenario: RCP 2.6 |
| Early transition | Gradual and deliberate shift towards a low carbon economy with the outcome of successfully limiting global average temperature increase within 2°C by 2100. | Scenario based: UNFCCC's SSP1<br>Physical risk scenario: RCP 2.6 |
| Hothouse world | Continuation of current projection of carbon emissions without any significant abatement or mitigation. Likely to result in average global temperature increase of >4°C. | Scenario based: UNFCCC's SSPs 2-5 w<br>Physical risk scenario: RCP8.5 |

1. The reference data refers to existing published scenarios in relation to socioeconomic data and climate projections that we have used to base our forward looking scenarios on.

As NEXT grows and changes, and the reference data evolves, we intend to periodically review the scenarios and timeframes we choose to apply in our analysis and refine them as needed. Our next review is scheduled for 2024/25 by which time we expect to see enough change to make the next scenario analysis meaningful.

### Overview of our findings

The headline implications for the resilience of our business, as summarised by reference to our scenarios, are:

| Scenario | Description |
|---|---|
| Late transition | Most impactful scenario, driven by the potential for the introduction of the most severe forms of carbon taxation. |
| Early transition | In this scenario, the impact from the introduction of carbon taxation is still significant but carbon prices are predicted to stay at lower levels. Therefore, this is the middle impact scenario. |
| Hothouse world | This is the least impactful analysis, however, it is acknowledged that this is in part due to the physical impacts under this scenario not being severe until post-2050 in the hothouse world scenario. |

The analysis suggests that NEXT is most exposed to transition risk up to 2040. This is due to:

- The potential for significant exposure to Scope 3 emissions costs.
- The ability to manage physical risks to the supply chain via a diverse supplier base and agile procurement practices. NEXT already has this ability, therefore it does not require any investment or changes in approach.

The scenario analysis has confirmed that our mitigation actions to 2040 should focus on transitional risks, and critically on the reduction of carbon and environmental impacts on which NEXT may be taxed or regulated. The impacts of the physical risks under all scenarios are relatively modest under both time horizons.

| Type of risk | Risk | Potential impact | Mitigation/Business response |
|---|---|---|---|
| Transition | Increased regulation on product composition or mix | Increase in the raw material costs across the core fabrics we use. | We already closely monitor the implementation of any policies related to products to ensure we comply with appropriate safety regulations. We will continue to monitor product legislation policies with a view to identifying potential direct operating costs of the business that relate to climate change. |
| Transition and Market | Introduction of climate sanctions | Tax levied on imports from countries with a less environmentally friendly regime. | Balanced sourcing of product suppliers should reduce exposure to this risk. |
| Transition | Increased pricing of greenhouse gas emissions | Failure to comply with regulations to reduce our environmental footprint. | Pay attention to any future policy proposed which may increase direct operating costs of the business through carbon taxes. Working to achieve the climate goals will reduce any cost risks. |
| Physical | Increasing extreme weather events affecting suppliers' operations | Factories located in low-lying areas could be at risk of flooding. A severe weather event could lead to supply disruption and loss of materials in the short term and increased insurance costs over the long term. | NEXT Sourcing, our overseas sourcing operation, undertook an environmental impact assessment for supplier factories in China, Bangladesh and India to model the potential impact of flooding. It was noted that the Bangladesh floods in 2004, which covered two thirds of the country, primarily impacted regions in which NEXT Sourcing had no presence. Assuming that future floods impacted the same regions, it is considered that there would be little production risk but likely delays in getting product to ports for onward transportation. The key mitigation would be to send critical stock by air freight where necessary. The financial impact of doing so would be immaterial. The potential increase in costs to insure buildings in those areas or move them altogether is a long term risk.<br><br>In addition to NEXT Sourcing, we source from a number of suppliers which provides us with a diversity across different geographies. |
| Physical | Severe crop failure in cotton supply chain | A severe adverse weather event could cause widespread crop failure. This could lead to supply disruption, increased raw material prices, and a decrease in the quality of products in the short term. | In order to have a significant impact on the business, there would need to be a significant systemic global failure of crops. Mitigations would include passing on the increased cost to the consumer or blending materials together. |

## 3. Risk Management – Describe how the organisation identifies, assesses and manages climate-related risks.

### a) Describe the organisation's processes for identifying and assessing climate-related risks.

Climate-related risks are embedded within our overall integrated risk management framework and any risks identified are subject to the same process and managed in line with all other risks. For further detail on our risk management framework and processes please see pages 74 to 77.

### b) Describe the organisation's processes for managing climate-related risks.

Senior management conduct formal assessments of the key risks relevant to their areas of responsibility twice a year. Climate is discussed as part of that process but is not currently a material matter in respect of any risk identified.

### c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

The Audit Committee, under delegated authority from the Board, is accountable for overseeing the effectiveness of our risk management process, including identification of the principal and emerging risks. Our ESG Steering Group supports this process and helps to identify, monitor and assess current and emerging climate risks and report these to the Audit Committee. Valuable input is received from the Head of Product Legislation and Sustainable Development who is a member of the ESG Steering Group. The output of all climate-related risk assessments is considered by the Board when they assess the principal risks of the business and is also used to direct focus to our ESG work.

# CORPORATE RESPONSIBILITY

## 4. Metrics and Targets – Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

### a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

### b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

### c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

NEXT's metrics and targets are used to help us understand our progress and to identify opportunities and risks. These span a number of topics set out in more detail below and are collectively used to assist in the determination of our priorities. Our primary current targets are set out in the table below and pages 86 to 88 for our SECR and GHG disclosures.

### Metrics and targets

| Strategic goal | Deadline | Progress achieved at January 2023 | Measures |
|---|---|---|---|
| Responsible Sourcing Strategy 2025[1] | 2025 | In progress – 54% (2022: 42%) | Source 100% of main raw materials through known, responsible or certified routes by 2025. |
| Reduce Scope 1 & 2 absolute carbon emissions by 55% | 2030 | In progress – 47% reduction (2022: 45%) | Reduce Scope 1 & 2 emissions by 55% against an absolute baseline of 2016/17. |
| Reduce Scope 3 carbon emissions by 40%[2] | 2030 | In progress – 29% | Reduce Scope 3 emissions by 40% per £1m of sales against a relative baseline of 2019/20. |
| Divert more than 95% of operational waste from landfill | 2020 | Achieved – 95% (2022: 96% (RS)) | Divert at least 95% of operational waste from landfill through recycling. |
| EV100 Pledge[3] | 2030 | We currently have 731 Company Cars on our fleet, of which 63 are fully electric (8.6%).<br>We currently have 242 charging points across our network with 6 at Head Office.<br>We have workplace e-charging available at 9 sites. | 100% of vehicles up to 3.5 tonnes to be electric.<br>Charging points across all staff sites. Charging points across all customer sites (car parks with sole use). |
| RE100 Pledge | 2030 | In progress – 95% (2022: 94%) | 100% of electricity purchased to be certified renewable globally. |

1. **Source 100% of main raw materials through known, responsible or certified routes by 2025**
We do not source raw materials directly, so our main focus is on supporting our commercial buying teams and working closely with them to influence positive sourcing and manufacturing decisions. In 2022 we relaunched our '2025 Responsible Sourcing Manual' which gives our commercial teams guidance on more sustainable materials. In addition, we are increasing our visibility of the different tiers of our supply chain to ensure the materials used in our products are sourced and manufactured responsibly. We have a clear responsible sourcing strategy to source 100% of main raw materials through known, responsible or certified routes by 2025.
In 2021, we started labelling most NEXT products containing at least 50% of a 2025 approved raw material. This makes it easier for customers to identify products that contain these materials.
2. **Reduce our Scope 3 emissions by encouraging our supply chain to improve energy efficiency and reduce carbon emissions**
To help support our work on encouraging and supporting our key suppliers to decarbonise their operations, we joined the Sustainable Apparel Coalition. This gives us access to a suite of tools to support the standardised measurement of sustainability from our supply chain, using the Higg Index. In addition, we supported the creation of the BRC's Climate Action Roadmap. This is a framework to guide the retail industry to net zero by 2040. As a founding signatory to the Roadmap we commit to working with other retailers, suppliers, Governments and stakeholders, and to support customers, to collectively deliver the industry's net zero ambition.
Our next step is to incorporate the data we collect from the Higg Index sustainability tool into the different tiers of our supply chain, identify the areas where there is the biggest opportunity, for example switching energy sources and communicate the importance of our progress to our suppliers.
3. **Reduce emissions caused by transport**
One of the main elements within our control is around our Scope 1 transport emissions. We have set up a working group in our Retail Distribution Transport team to develop a strategy for fleet decarbonisation, covering both electric and alternative fuel vehicles. Currently, we are constrained by the range of electric vehicles which do not yet meet our operational requirements. We have continued to review and test EVs with a view to replacing our existing fleet as soon as possible. Unfortunately technology does not appear to be developing as fast as we anticipated, as the distance range of the vehicles currently available means that EVs cannot meet our needs. We will continue to review the position with the intention to move to EV or alternatives as soon as vehicles are available that are viable and commercially reasonable.
We recognise that technology may move away from electric in the future and we are therefore also investigating hydrogen as an alternative fuel.

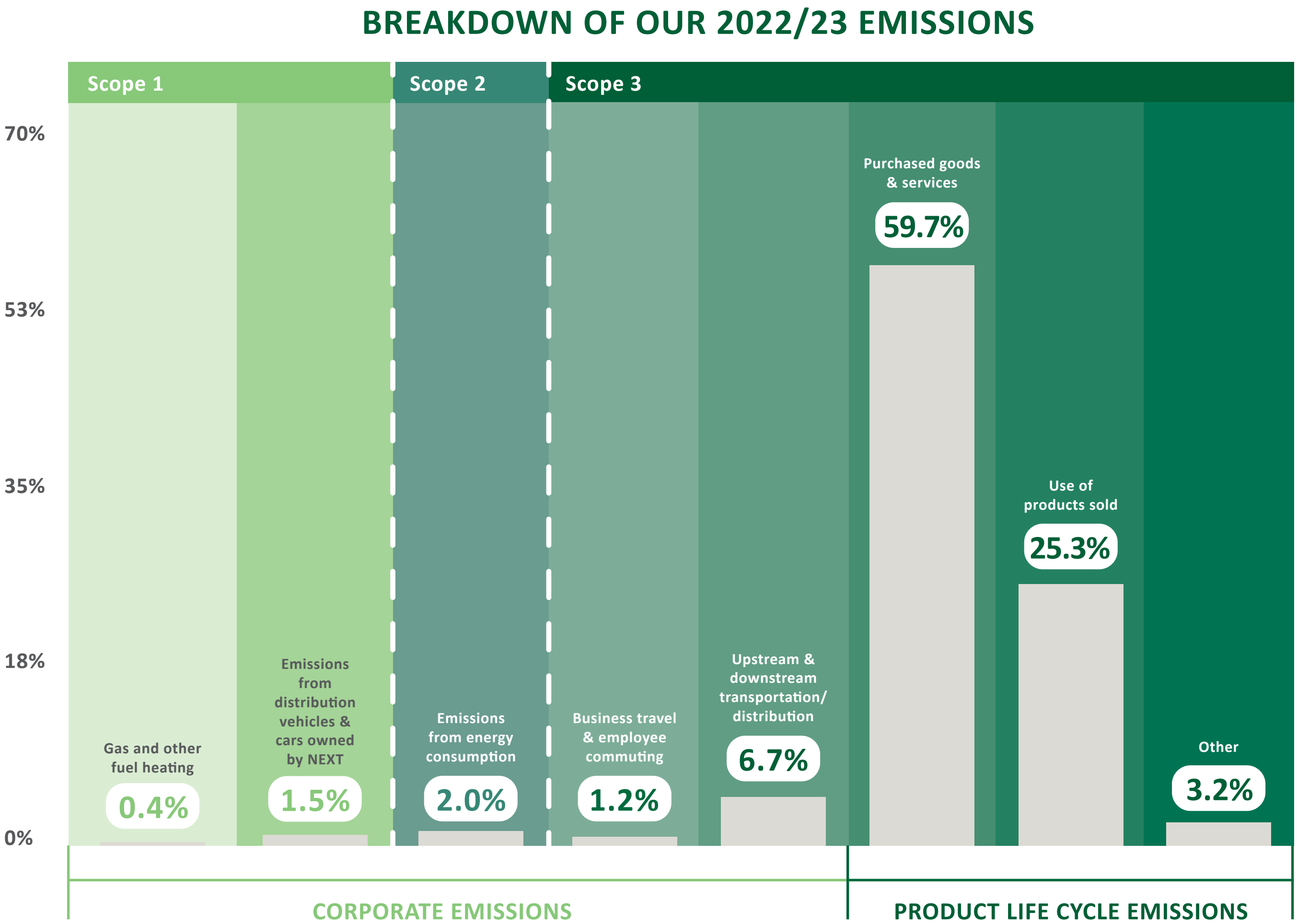
(RS) Restated from prior year due to improved data availability.

### Strategy

We are at the start of a complex and challenging journey and our strategy will continue to be refined. Our environmental strategy is informed and driven by:

- The direct and potential impact of climate change on our operations, identified through assessing our risks and opportunities in the short, medium and long term and also climate change scenario analysis.
- Our commitment to reducing our Scope 1, 2 and 3 emissions, which have been set to align with the SBTi footprint approach and methodology. Our Scope 1 and 2 targets are consistent with achieving a 1.5 degree reduction in line with the SBTi pathway. We also commit to reduce Scope 3 emissions by 40% per £m of sales and Scope 3 emissions from indirect use of sold products by 40% per £m of sales by 2030. We gained SBTi approval for our targets in July 2021.
- Industry trends with a potential environmental impact.
- Regulation, guidance and stakeholder expectations.

Our Scope 1, 2, 3 and GHG emissions are disclosed on pages 86 to 88. A further breakdown of our 2022/23 emissions is set out in the chart below.



# CORPORATE RESPONSIBILITY

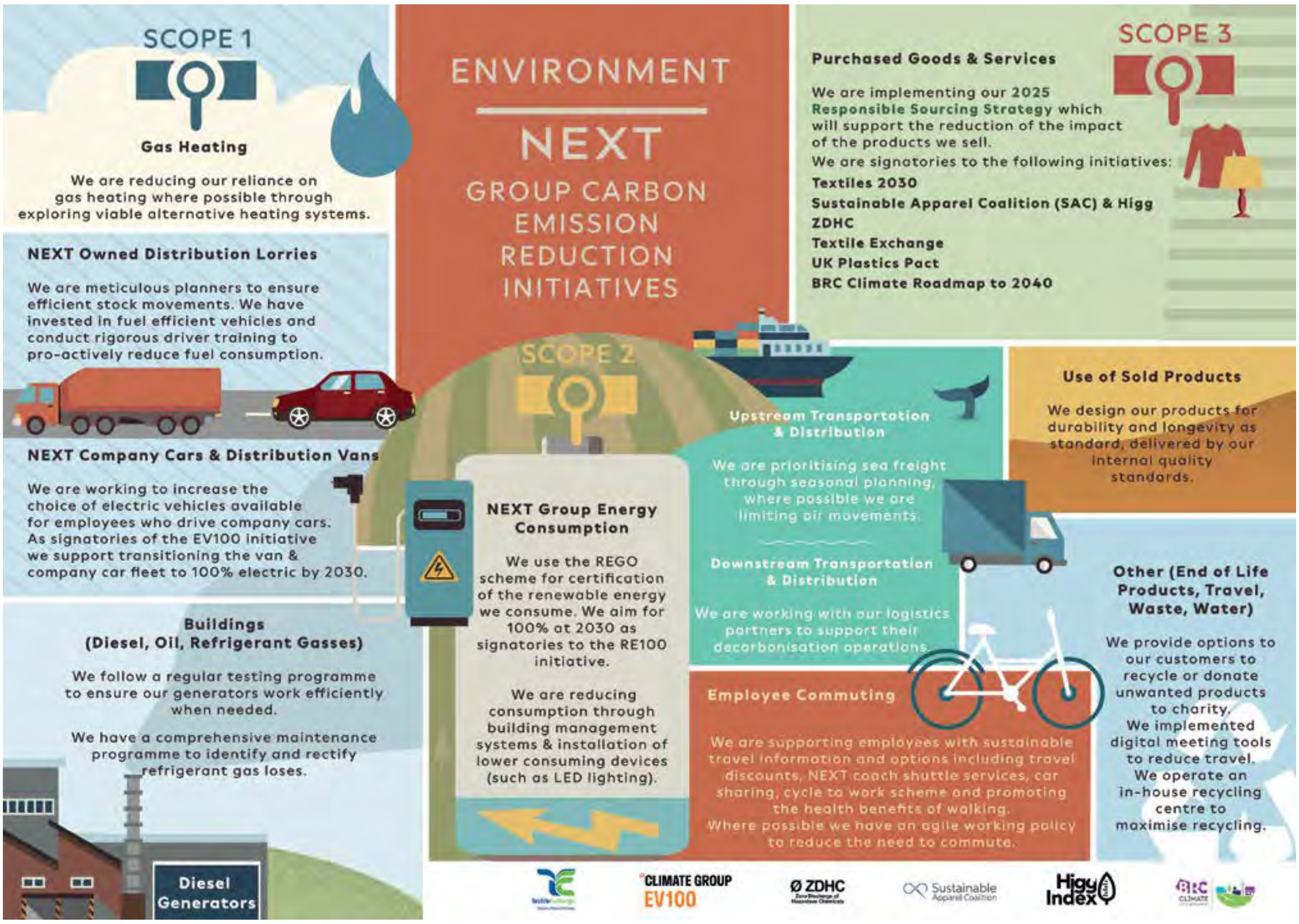
### Net zero

Our net zero transition plan feasibility involves horizon scanning, gap analysis and implementation planning. We want to ensure our transition plan is realistic, credible and deliverable and that we have completed the key stages as set out in existing and emerging guidance, such as the Transition Plan Taskforce Disclosure Framework and Implementation Guidance, to be in a position to share it.

The SBTi developed the first science-based standard for corporate net zero targets in late 2021. This aims to translate companies' net zero targets into action that is consistent with achieving a net zero world by no later than 2050 and we continue to review the standard.

We are a signatory to the British Retail Consortium's Climate Action Roadmap, a framework to guide the industry to net zero emissions by 2040. Through the Roadmap we commit to working with other retailers, suppliers, Government and other stakeholders, and to support customers to collectively deliver to the industry's net zero ambition.

Illustrated below are some of the many carbon reduction initiatives we are working on.




## Packaging and recycling

### Packaging

By 2025 we aim to eliminate avoidable plastics in product packaging and we are also investigating opportunities to reduce packaging throughout our operations.

- We have trialled the installation of collection points in-store for customers to return their plastic packaging for recycling. This has been rolled out to all stores and our Head Office, however, we are seeing a broad mix of plastic packaging and other materials being deposited so are considering how to improve the efficiency of this method of packaging take-back. We are working with our UK packaging suppliers to reuse the collected materials which are appropriate for use in new packaging.
- We are working with our packaging suppliers to increase the recycled content of plastic packaging to be 100% where possible, and in particular on the clear protective bags received by customers.
- We have conducted a trial to deliver single items ordered Online to stores without the usual additional plastic outer packaging. The trial was successful and this process has just been rolled out to all stores. We estimate that this will reduce the amount of outer packaging used for Online by around 20%.

### Recycling

All our packaging is recyclable, although not all local authorities recycle all materials. We use 100% recycled content carrier bags (excluding the handles) in our retail stores and we recycle any bags returned to us by our customers.

In addition, we reuse or recycle all hangers used in our retail stores, and accept back unwanted hangers from our customers for recycling. The recycled hangers are either reprocessed for reuse or made into new hangers. In 2022, we collected 328 tonnes of hangers for reprocessing with 46 tonnes of hangers reused within the supply chain and 282 tonnes remade into new hangers.

# Sustainability Accounting Standards Board (SASB)

The following sets out how we comply with the SASB metrics. More information can be found on our website at nextplc.co.uk/corporate-responsibility.

The Apparel metrics cover four broad areas:

- The Management of Chemicals in Products (Chemicals).
- Environmental Impacts in the Supply Chain (Environment).
- Labour Conditions in the Supply Chain (Labour).
- Raw Materials Sourcing (Raw Materials).

In the areas of Chemicals, Labour and Raw Materials we are well on our way to full compliance.

Having developed a programme to prioritise our suppliers, last year was year one of a three year plan to benchmark our suppliers against the standards within the Zero Discharge of Hazardous Chemicals (ZDHC) requirements.

For Labour and Raw Materials, our main efforts were around improving our existing policies and internal metrics to align more closely to the SASB requirements. While our compliance in these areas is good, we continue to work on disclosure which is covered in more detail within our Corporate Responsibility Report at nextplc.co.uk/corporate-responsibility. Our policies are available to our suppliers via our Supplier Communication platform, and we also host key policies on our corporate website at nextplc.co.uk.

We are in the process of significantly improving how we measure our suppliers' environmental performance across energy use, chemicals, waste and water use and discharge, through our membership of the Sustainable Apparel Coalition (SAC), where the main impact is at Tier 3 in our supply chain. SAC allows us to capture the required level of data in a standardised format.

The table below reflects our progress towards compliance with SASB and sets out details of where to find further information.

| Topic | Sub-topic | Reference |
|---|---|---|
| Management of Chemicals in Products | Processes to maintain compliance with restricted substances regulations. | See page 103 |
| | Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products. | |
| Environmental Impacts in the Supply Chain | Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreement. | Read our SASB Report at nextplc.co.uk/corporate-responsibility |
| | Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition's Higg Facility Environmental Module assessment or an equivalent environmental data assessment. | |
| Labour Conditions in the Supply Chain | Percentage of (1) Tier 1 supplier facilities (2) supplier facilities beyond Tier 1, that have been audited to a labour code of conduct, (3) percentage of total audits conducted by a third-party auditor. | (1) 71%<br>(2) 6%<br>(3) 100% |
| | Priority non-conformance rate and associated corrective action rate for suppliers' labour code of conduct audits. | See pages 100 and 101 |
| | Description of the greatest risks in the supply chain concerning:<br>1) Labour.<br>2) Environmental, health, and safety. | <br>See page 105<br>See pages 77, 91 and 98 |
| Raw Materials Sourcing | Description of environmental and social risks associated with sourcing priority raw materials. | See page 101 |
| | Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard. | Cotton: 65% Better Cotton<br>Timber: 50% certified and responsible of which 35% certified by Forest Stewardship Council |

# CORPORATE RESPONSIBILITY

## OUR PEOPLE

### Our commitment

Our colleagues are integral to NEXT's success, their safety and wellbeing is always our top priority. We want to ensure we provide a workplace in which everyone is:

- Supported.
- Treated fairly and with respect.
- Listened to.
- Motivated to achieve their full potential.

### Our approach

We aim to deliver on our commitment by focusing on the following elements:

- Health, safety and wellbeing.
- Equal opportunities and diversity.
- Reward, fair pay and employee share ownership.
- Training and development.

### Health, safety and wellbeing

Good health and wellbeing is one of our most relevant SDGs. We want to ensure NEXT is an exciting and rewarding place to work and allow everyone to work in an environment where they are able to maximise their creativity, productivity and engagement. It is important therefore to have a culture that enables all our colleagues to maintain positive mental wellbeing. We have a Mental Wellbeing Charter, aimed at encouraging an environment where mental wellbeing is discussed openly, improving how we can identify and help those suffering from mental ill-health, ensuring that people are treated fairly and with care and compassion. In recognition of the fact that retail is the largest private sector employer in the UK, we collaborated with the Samaritans and our peers to develop Wellbeing in Retail, an initiative that supports the mental health and wellbeing of retail workers.

#### Actions during the year

We have maintained a regular flow of communication with our colleagues to keep them safe and well. During the year we:

- Continued to update our employee hub to provide support, health and wellbeing advice, useful information, hints, tips and monthly initiatives.
- Offered a free flu vaccination programme for all employees.
- Raised awareness of the support services available to employees should they need them. For example, during World Mental Health Day we featured THRIVE, a free NHS-approved app.
- Continued to grow our Mental Health First Aider population where there are now 140 MHFAs trained and upskilled through our network group Open Minds.
- Maintained discounts on fees for several gyms, personal training sessions, nutrition sessions and wellbeing apps.

### Equal opportunities and diversity

Alongside our wellbeing activities we have embedded our approach to diversity and inclusion in the business:

- We have Pride@Next, an employee-led LGBT+ network which works to raise awareness of LGBT+ issues at NEXT and helps shape our policies. With input from Pride@Next, we developed a policy to support transgender colleagues.
- We continued to focus on women returning from maternity leave and now run group workshops and coaching to help new mums achieve a sustainable work/life balance.
- Our Unity network, an employee-led group, continued to focus on celebrating the diversity of cultural backgrounds represented at NEXT. This included special events created to inspire and learn from others. One such event saw us invite the 'Black Farmer' to attend an inspirational workshop session open to all employees to hear more about his career story and background. This event was recorded and distributed across the Unity Network. We are a signed up to the Race at Work Charter to underpin the work of Unity.
- We are a Level 2 Disability Confident Scheme Employer.
- We launched a new network called 'Able'. Able at NEXT is a staff network aiming to give a voice to disabled people, people who care for someone with a disability and those who support our aims within the organisation. Able hopes to open up the conversation about disability and how we can move forward to achieve a more inclusive and diverse organisation for all.

#### Actions during the year

- We continue to work with our partner, Business in the Community, on the Mentoring Circles programme which offers young people from ethnic minority backgrounds the chance to connect with mentors in their chosen industry to share their experiences of the workplace and help mentees with their own career progression.
- We partnered with an external training provider to create a diversity and inclusion awareness training session for managers. This training has been completed by managers across the business and now e-learning sessions are available for the non-management population.
- Following last year's success of the first ever product collaboration with one of our charity partners, Parkinson's UK (where all proceeds raised went to the charity) we have broadened the project, recruiting a designer from within the business to partner with other charities to explore further collaborations which will be available on our website.
- We continued to support pregnant employees and those returning from maternity leave at Head Office by partnering with an external organisation to offer a programme of pregnancy yoga alongside maternity coaching. We also launched support for pregnancy loss.
- We continued to champion the recruitment and development of female talent in IT by building on initiatives including a scheme to attract talent who may have left the workplace due to childcare responsibilities, and a mentoring scheme to develop leadership skills.

NEXT is an equal opportunities employer and we offer career opportunities without discrimination. Job vacancies are filled by the candidates who have the most relevant skills and competencies to succeed. Our policy is to treat all employees fairly and equally regardless of gender, sexual orientation, marital status, race, colour, nationality, religion, ethnic or national origin, age, disability or union membership status. Further details of our diversity policy are included in our Nomination Committee Report on page 124.

Full consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. We continue the employment wherever possible of anyone who becomes disabled during their employment, providing assistance and modifications to their environment where possible. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

We continue to look at ways to improve gender diversity. Women are well represented throughout the Group, with half of our executive directors and 40% of our Board being female at the financial year end. In relation to our senior management and their direct reports, NEXT was ranked second in the 2023 FTSE Women Leaders Review, Achieving Gender Balance.

Recognising that women can be disproportionately affected by childcare commitments, our Head Office (where over 4,000 of our colleagues are based) has a purpose-built nursery onsite. This is part of our ongoing commitment to support our employees with their pre-school childcare arrangements.

Gender equality is a fundamental human right and is another SDG that we focus on. Gender equality continues to be particularly challenging in less developed countries where we are looking at ways to support improvements.

The gender mix of the Group's employees at the end of the financial year is set out in the table below.

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Male** | **Female** | Male | Female |
| Directors of NEXT plc | **6** | **4** | 6 | 4 |
| Operational directors and other senior managers[1] | **26** | **20** | 25 | 16 |
| Total employees | **13,335** | **30,713** | 13,851 | 30,775 |

1. Other directors of the Company's subsidiary undertakings comprise 13 male and 6 female employees.

## Reward, gender pay and employee share ownership

We aim to reward all employees with fair and competitive salaries and provide the opportunity to earn additional pay in the form of a bonus. Our annual Gender Pay Report can be found at nextplc.co.uk.

We operate a Sharesave scheme to encourage employees to own shares in NEXT. All UK employees have the opportunity to save money over three or five years to buy NEXT plc shares at a discounted price. We also operate a share option scheme which extends to more than 2,000 participants.

Approximately 11,380 employees (circa 27% of our total UK and Irish employees) held options or awards at the end of January 2023. These options or awards were held in respect of 7.0m shares in NEXT, being 5.4% of the total shares then in issue. NEXT's Employee Share Ownership Trust (ESOT) purchases shares for issue to employees when their options are exercised or awards vest. At the year end the ESOT held 6.5m shares. The ESOT Trustee does not vote on any resolution at General Meetings.

## Pension provision

Details of the pension benefits we provide to participating employees are set out in the Remuneration Report and in Note 20 to the financial statements. At January 2023, there were 590 (2022: 636) active members in the defined benefit section of the 2013 NEXT Group Pension Plan and 3,414 (2022: 3,761) UK active members of the defined contribution section. In addition, 21,350 employees (2022: 15,235) participate in the Group's auto enrolment defined contribution scheme.

## Training and development

We have a good track record of promoting from within; all our executive directors were promoted to the Board having previously served as employees. We aim to realise our employees' potential by supporting their career progression wherever possible. The Group invests significantly in the training and development of staff and in education programmes which contribute to the promotion prospects of employees. We believe these opportunities help employees feel supported and equipped to carry out their role to the best of their ability.

Our employees can access a range of development tools and appropriate job-specific training through the integrated training teams within each area of the business. This includes:

- Job role-specific training covering professional, technical, operational and skills training.
- Individually tailored training to address an employee's individual needs and specific business requirements.
- In 2022 we introduced a new Learning Hub for our Head Office population that offers additional training and development support on management and recruitment topics.
- Training in areas such as health and safety, first aid and manual handling to ensure our employees work in a safe environment.

# CORPORATE RESPONSIBILITY

## OUR SUPPLIERS


### Our commitment

We focus on ethical trading, traceability and responsible sourcing to ensure our products are made by workers who are treated fairly and whose safety, human rights and wellbeing are respected.

### Our approach

In common with other retailers, NEXT's product supply chain is both diverse and dynamic. During the year, NEXT products were manufactured in around 42 countries through over 600 suppliers. Our Tier 1 supply chain comprises circa 1.8 million workers.

Diversity of supply provides us with a cost-effective supply chain and an extensive range of products for our customers. It also increases the risk of sourcing from unethical suppliers, particularly in the lower tiers of the supply chain where visibility is more limited.

### Payment practices

NEXT calculates and uploads relevant supplier data onto the Government portal under the 'Duty to report on payment practices and performance' legislation under section 3 of the Small Business, Enterprise and Employment Act 2015.

### Ethical trading

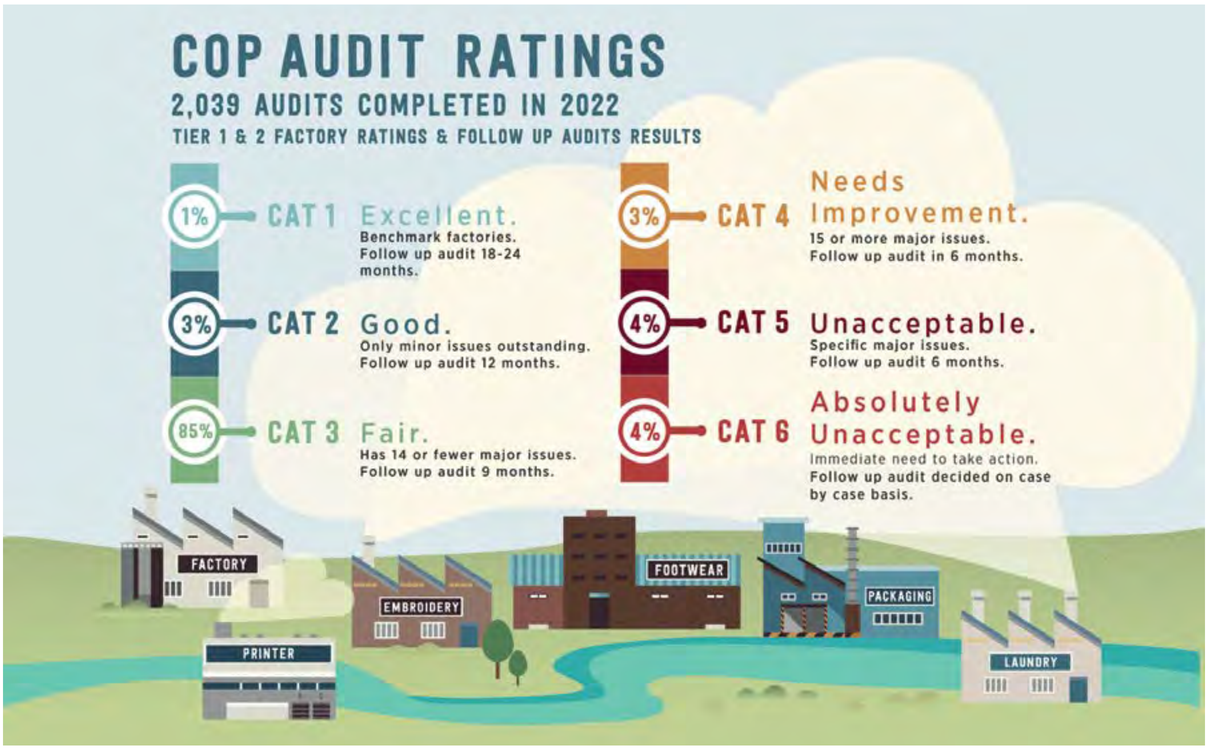
Infringement of workers' rights like safety, human rights, employment and working conditions are a key risk. We induct, train and support our suppliers to make sure they understand what is expected of them and to help them raise standards. Working with suppliers to raise their standards rather than terminating the relationship delivers a better outcome for workers and the supply chain as a whole. Our aim is to support factories in resolving issues, but we will not continue to work with them indefinitely if there is no willingness to improve.

Our drive to support ethical trading in our supply chain includes:

- Working with our suppliers to ensure they understand our requirements and COP Principle Standards.
- Holding regular meetings with individual suppliers to share information and develop relationships.
- Our in-house global COP team which comprises 48 employees that administer our COP programme based on the Ethical Trading Initiative Base Code (ETI) and International Labour Organisation Conventions.

Our COP team works directly with new and existing suppliers and their factories. They are based in key sourcing locations around the world. This enables the team to respond quickly if issues occur. It also allows us to develop trust and build strong relationships with suppliers by offering meetings, training and support, even before orders are placed by our product teams.

Compliance with our COP Principle Standards is monitored through audits by our COP team which generally take place unannounced. Our auditing standards provide detailed information to help our suppliers fulfil their obligations. Our audit plan prioritises the human rights of workers in our supply chain and is risk-based, taking into account geographic location, ethical reputation, the type of manufacturing process and the factory's most recent audit rating. Where we find areas for improvement during an audit, we create a Corrective Action Plan which is agreed with the supplier and factory management. Follow up reviews are undertaken to monitor progress against the Corrective Action Plan.



### Actions during the year

During the year, the COP team:

- Carried out over 2,000 audits. The team encountered fewer travel restrictions and factory closures than in the previous year, however local lockdowns continued in some regions. In person audits have continued as often as possible, supported by virtual audits as necessary. Of the audits conducted, 87% related to Tier 1 suppliers and 13% related to Tier 2 suppliers.
- Supported 30 factories to successfully remediate critical issues found. A further 17 sites are participating in an active remediation process.
- Disengaged with 31 factories that refused to satisfactorily rectify their critical non-compliance with our COP Principle Standards. A breakdown of audits by rating is provided in the illustration on the previous page.

## Traceability

Traceability and transparency of our suppliers' factories are an important part of NEXT's overall approach. Suppliers are categorised into five tiers:

- **Tier 1** are suppliers' factories where bulk production of NEXT branded products takes place.
- **Tier 2** are factory sites declared and used by a Tier 1 supplier which include subcontractor locations that manufacture or process materials, components or parts of a finished product for processing by a Tier 1 supplier.
- **Tier 3** suppliers are fabric and yarn suppliers who spin, knit, weave, dye and print to produce finished fabric.
- **Tier 4** suppliers process the raw materials into a fibre.
- **Tier 5** is where the raw materials are sourced.

Tier 1 and Tier 2 suppliers are contractually bound by our COP Principle Standards that apply to all their declared sites from which they operate and source. These standards cover workers' safety, human rights, employment and working conditions. Our contracts mean we can visit a supplier (often unannounced) to undertake an audit to ensure it is, and remains, compliant.

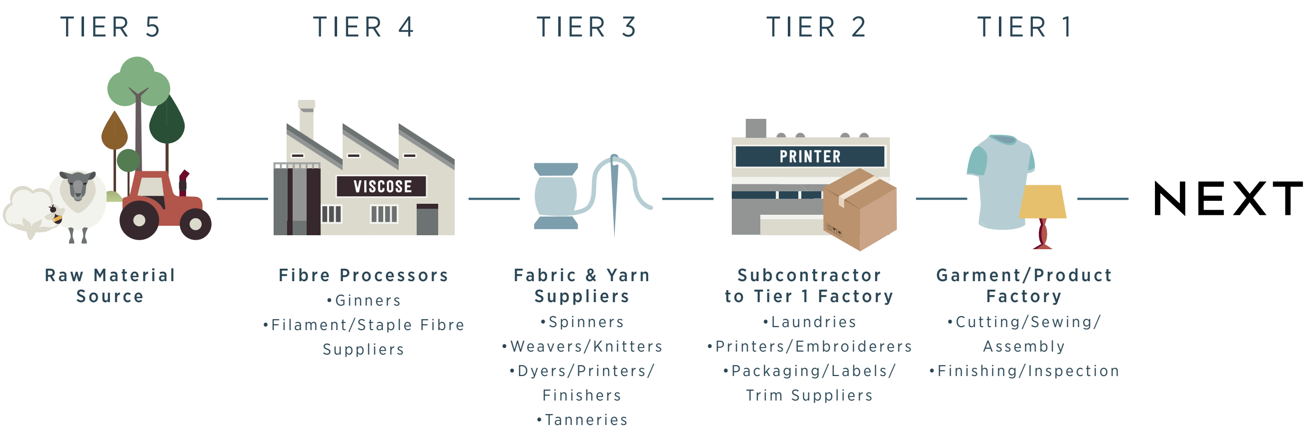
### Actions during the year

We have updated our lists of our Tier 1, Tier 2 supplier manufacturing sites which produce NEXT branded products and Tier 3 suppliers on our corporate website, nextplc.co.uk. We are continuing our work to extend the visibility of our supply chain to include Tier 4 and 5.

## Responsible sourcing

Each stage of our supply chain has an environmental and social impact, from sourcing the materials through to post consumer use and disposal. The majority of the environmental impact lies in the fibre and fabric production stage. While we do not source raw materials directly, we work with our suppliers to ensure we can trace their supply routes. This enables us to source products in ways which support their replenishment, respect human rights and protect natural habitats.

The main raw material fibres used in our products include cotton, polyester, manmade cellulosic (such as viscose), and wool. Timber and leather are also significant raw materials for us. These materials can have wide-ranging environmental and social risks associated with their production and extraction if not managed correctly.



# CORPORATE RESPONSIBILITY

## Environmental collaborative initiatives

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

| | |
|---|---|
| Zero Discharge of Hazardous Chemicals (ZDHC) Roadmap to Zero | NEXT is a signatory to the ZDHC programme to collaborate on promoting industry-wide change in responsible chemical management in textile and leather production processes (dyeing, printing and laundering of textiles, and tanning and dyeing of leather) to protect workers, customers and the environment. NEXT has its own Restricted Substances Standards which ban or state the limits for harmful chemicals used in or during the manufacture of our products.<br><br>We provide specially designed online chemical management training modules to our suppliers (notably our key fabric mills and wet processors) to educate on good practices to reduce and eliminate the discharge of hazardous chemicals from production processes into the environment. |
| Better Cotton Initiative (BCI) | NEXT joined the BCI in 2017 and in 2022/23 sourced 65% (2021/22: 44%) of its cotton as Better Cotton. Our target is to source 100% of cotton from certified sources including BCI, recycled or Certified Organic cotton by 2025.<br><br>NEXT bans the use of cotton from Uzbekistan, Turkmenistan and the Xinjiang region of China in our textile products due to concerns over the mistreatment of the Uyghur people, child labour and working conditions in these territories. |
| Changing Markets Foundation's Roadmap Towards Responsible Viscose and Modal Fibre Manufacturing | This Roadmap focuses on the chemicals used to break down timber to make viscose pulp which is spun to create fibre. It aims to minimise the effects of harmful chemicals in the manufacturing process. NEXT works with its viscose and modal manufacturers to help them adopt closed-loop production systems to ensure emissions controls and chemical recovery rates are in line with the EU Best Available Technique standards. |
| CanopyStyle | NEXT is working with Canopy through its CanopyStyle initiative to ensure wood based fabrics are responsibly sourced. We are committed to ensuring cellulosic fibres used in our products do not come from ancient and endangered forests, endangered species or illegal sources and that the rights and wishes of indigenous communities are respected. We have updated our Manmade Cellulosics Policy to only accept wood based fabrics sourced from Canopy 'Green Shirt' approved suppliers for 2021 onwards. |
| Sustainable Apparel Coalition (SAC) | In 2021, NEXT joined the SAC, a global non-profit alliance of more than 250 members working together to reduce the environmental and social impacts of the apparel, footwear and textile supply chains. SAC's work includes the development of the Higg Index, a suite of tools to measure environmental and social performance in a standardised way. We encourage our suppliers to adopt the Higg Index which allows NEXT to monitor and improve standards at factory level. NEXT has rolled out the Higg Facility Environment Module to our supply chain. |
| Timber sourcing | NEXT aims to contribute to zero net deforestation and forest degradation through our sourcing decisions. We risk assess all timber products to verify that the material used was harvested, traded and transported in compliance with the applicable legislation in the country of origin in line with the UK Timber Regulations and our detailed Timber Sourcing Policy. |
| The Microfibre Consortium (TMC) | In 2017, NEXT joined TMC to collaborate on solutions to minimise microfibres being released into the marine environment. NEXT provides resources from its in-house laboratory, to develop fibre shedding testing methods which are helping TMC to work towards a robust industry-based solution. The testing methodology is being used to assess fabrics and create standards for the sector. |
| Waste Resources Action Plan – The UK Plastics Pact | The UK Plastics Pact brings together businesses across the entire plastics supply chain, the UK Government and NGOs to tackle plastic waste. It is striving to create a circular economy for plastics, capturing their value by keeping them in the economy and out of the natural environment. Pact members are committed to eliminating problematic plastics, reducing the total amount of packaging and helping to build a stronger recycling system in the UK. NEXT has been an associate member since October 2020. |
| Waste Resources Action Plan – Textiles 2030<br><br>*(Replacing the Sustainable Clothing Action Plan which is now closed)* | Textiles 2030 is a UK textile sector collaboration making rapid, science-based progress on circularity and climate action. Launched in April 2021, the voluntary agreement builds on the learning and success of the Sustainable Clothing Action Plan 2020 and has over 100 signatories across the retail, recycling and reuse sectors. As a founding signatory partner, by 2030 NEXT aims to reduce its combined greenhouse gas emissions by 50%, sufficient to limit global warming to 1.5°C in line with the UN trajectory to reduce climate change. It also aims to reduce the water footprint of new products sold by 30%, and develop a clear pathway to improve the sustainability of textiles across their entire life cycle. |

# OUR CUSTOMERS AND PRODUCTS

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
3 GOOD HEALTH AND WELL-BEING

## Our commitment

Our commitment is to offer beautifully designed, excellent quality clothing, homeware and beauty products that are well made, functional and safe, sourced responsibly and provide outstanding value to meet or exceed our customers' expectations.

## Our approach

Understanding what our customers want is essential in the design and manufacture of our products. 'NEXT Loves to Listen' is our online survey and is available to every customer who collects an order or shops in our stores. We also conduct customer interviews and online surveys, accompanied store visits and run customer discussion groups. We have processes in place to monitor, evaluate and respond to customer feedback.

## Continuing our circular economy journey

The circular economy is an economic system aimed at designing out waste and maximising the reuse and recycling of resources along the whole supply chain.

As part of our Responsible Sourcing Strategy, we recognise we must work to reduce the environmental impact of our business activities. This will be achieved by supporting the transition to a more circular economy by designing, producing and selling products which limit pollution and waste and help to keep materials in use for longer. Examples of our activities include:

- Working to reduce the packaging we use, both in store and online, and starting to reuse customers' returned packaging to create new packaging.
- Signatory to Textiles 2030, collaborating on carbon, water and circular textile targets to support the development of solutions which help to limit the impact clothing and home textiles have on climate change.
- Membership of the Circular Fashion Partnership in partnership with Reverse Resources, an initiative to capture and reuse textile waste in Bangladesh. The initiative brings brands and retailers, manufacturers and recyclers together to find circular processes that help to reduce textile waste, typically the small pieces of fabric from the cutting room in a factory. This waste is currently exported or downcycled, but through the initiative it is given a value which is helping to generate economic benefits in Bangladesh by accelerating the fibre recycling market. The materials are being used to create recycled cotton or being used as an alternative feedstock to timber for man-made cellulosic fibres.
- Developing takeback schemes to ensure valuable resources are kept in circulation, including a mattress recycling programme and help for customers to donate unwanted furniture for reuse. We recognise there is much more to do and that collaboration across the industry is vital.

During 2023, we will bring our existing work together to start to develop our circularity framework for NEXT. To support this we became one of the founding signatories of WRAP's Textile 2030 initiative. Signatories have committed to a collaborative approach to accelerate progress towards a circular economy for textiles as well as working to reduce the climate impact of the industry. We will consider the impact our designs and product development can have on the environment and what choices we can make when developing our products, such as:

- Product durability and longevity.
- Responsibly sourced materials.
- Safe processing to protect workers and the environment.

The framework will provide a practical tool to support our Product teams and help to set future product category specific circular economy plans.

## Product safety and legislation compliance

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

NEXT also works with our LABEL third-party brands to ensure all products offered for sale are safe for their intended use. Third-party brands need to demonstrate compliance with legislation as well as being able to show the product has been sourced from factories which are compliant with the ETI Base Code and NEXT's own COP Principle Standards.

## Chemical management

Many products contain chemicals in one form or another, most of them harmless. To make sure our products do not contain chemicals which could be harmful to our customers, the workers who make them, or the environment, we require our suppliers to adhere to our Restricted Substance Standards (RSS) which are part of our Chemical policy. The RSS bans or limits harmful chemicals used in the manufacture of our products. We also have a thorough due diligence programme in place to support compliance with the RSS. If products fail our requirements, they are removed from sale and may be recalled from customers.

### Actions during the year

As a baseline, all of our online shipping plastic packaging and carrier bags, excluding handles, have a minimum of 30% recycled content.

We have rolled out customer packaging collection points in all of our stores and are now looking at ways to improve customer take-up and providing clarity around the types of packaging we are looking to take back.

# CORPORATE RESPONSIBILITY

## COMMUNITY

### Our commitment

We support charities and organisations that positively impact the countries in which we operate and source our products. This can be in the form of financial and product donations, sharing our expertise, knowledge and time.

### Our approach

We support a wide range of charities and organisations, working with them to provide donations that are of most benefit. In particular, we support organisations that have a positive impact on the following areas:

- **Environment**: environmental protection or improvement.
- **Reducing inequality:** supporting the promotion of diversity, inclusion and human rights and preventing or relieving poverty.
- **Health:** advancement and promotion of health and supporting emergency care services.
- **Education, skills and amateur sport:** advancement of education, life and work skills and the development of youth amateur sports.

Where possible, we support charities over a number of years with a specified annual donation as this commitment helps them to plan their work with confidence and allows us to become long term strategic partners.

### Long term partnerships – helping to reuse products

Disposal of products such as mattresses, sofas and furniture when they are no longer needed, can be difficult for our customers with many going unnecessarily to landfill. We have long term partnering relationships with a number of charitable organisations to reuse products where possible. These strategic partnerships include:

- Doncaster Refurnish, a social enterprise charity located near our main warehouses, which has partnered with us for more than ten years. It aims to help the local community by creating sustainable employment and training opportunities. Through NEXT's donation of safe but unsellable or damaged furniture and home accessories, Refurnish generates funding by converting items for reuse and sale. This funding provides much needed services in the community with the additional benefit of diverting tonnes of product from landfill.
- The British Heart Foundation (BHF). We offer our customers a free furniture collection service for unwanted items such as mattresses and sofas that can often be difficult to move and would otherwise be sent to landfill. All donated items are sold to raise vital funds; our customers' donated furniture and home products have helped BHF raise over £1.6m with over 12,400 items collected from customers' homes since we first partnered with them in 2016. It has also diverted hundreds of tonnes of furniture from landfill.

#### Actions during the year

During the year, we developed our Giving at NEXT website to support employees both at work and in their own time to make donations to help their chosen charities. The website, accessible to both colleagues and the public via https://giving.go.next/home, enables our people to volunteer online or physically, get involved with sustainability and wellbeing challenges, run fundraisers on behalf of their chosen charities and take part in payroll giving.

We provided the following financial support during the year:

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Registered charities | **1,177** | 1,126 |
| Individual requests, local and national groups and organisations | **5** | 1 |
| Commercial support | **60** | 60 |

This support was supplemented by the following additional activities:

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Gifts in kind – product donations | **1,608** | 1,482 |
| Charity linked sales | **298** | 211 |
| Employee fundraising | **74** | 20 |
| NEXT charity events | **3** | 2 |

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

# HUMAN RIGHTS AND MODERN SLAVERY

## Our commitment

We will not tolerate any instance of modern slavery in our business or in our supply chain.

## Our approach

Respect for human rights is a cornerstone of any responsible business. The violation of human rights in our operations is unacceptable and we deal firmly with any infringements identified in our supply chain.

Human rights abuse and modern slavery are complex issues which can take many forms. To help us prioritise our efforts, we focus on our salient human rights – those human rights that stand out because they are at risk of the most severe negative impact through our activities or business relationships. We identify our salient human rights taking into account the severity and scale of the risk and how difficult it would be for us to put right any harm, as set out in the UN Guiding Principles Reporting Framework.

The key human rights are:

| Salient issue | Why it is important to NEXT |
|---|---|
| Freedom of association | In a number of countries that we source from, the freedom to join an independent trade union is restricted either by law or not recognised by management attitudes and practices. This restricts the ability for workers to have a voice within their place of work. |
| Health & Safety | Fire and industrial accidents are a risk within our extended supply chain, impacted by the quality and management of building design and structure, fire prevention, machinery, chemicals and abrasives. |
| Children's rights | As part of new supplier inductions, we carry out training on child labour risks and our approach to managing any cases, including our Child Labour Policy and supplier guidelines, to ensure we minimise the risk of child labour within our extended supply chain. |
| Modern slavery | Some of our sourcing countries hire migrant workers from overseas and such workers can be vulnerable to the risks of exploitation, such as forced labour or retention of wages by suppliers. |
| Wage levels | All workers in our supply chain should be entitled to fair wages for the work they do. |
| Harassment and discrimination | Women represent the majority of workers in our supply chain. In many countries, the risk of discrimination against women is greater in relation to equal opportunities, age or marital status. |
| Water, sanitation and health | We source products from places which frequently encounter periods of water scarcity. This can lead to an increased risk that communities may not have access to clean, safe water.<br><br>Our extended supply chain includes operations such as laundries, mills, dye houses and tanneries; these facilities carry a particularly high risk of water contamination where untreated effluent can be discharged into rivers used by local communities. |
| Working hours | We rely on the workforce of our suppliers to meet order requirements, and those workers want to work to earn money. These factors can lead to excessive working hours that can impact workers' wellbeing. |

# CORPORATE RESPONSIBILITY

In our work on human rights, we:

- Implement the 'Protect, Respect and Remedy' framework of the United Nations Guiding Principles on Business and Human Rights.
- Use the United Nations Guiding Principles Reporting Framework to help us identify and manage the risk of harm associated with unsatisfactory working conditions, discrimination, modern slavery, human trafficking and forced or bonded labour, particularly to the most vulnerable and exploited, such as women and children.
- Uphold internationally recognised human rights principles, including those encompassed in the Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

More information on our salient risks is available at nextplc.co.uk/corporate-responsibility.

## Code of Practice

The standards expected of our suppliers which are integral to our ethical trading are clearly set out in our COP Principle Standards and Auditing Standards, further details of which can be found on page 100 and at nextplc.co.uk/corporate-responsibility/code-of-practice.

Our COP programme is based on the Ethical Trading Initiative Base Code (ETI) and International Labour Organisation Conventions.

### Actions during the year

With many restrictions lifted during the year, we have continued to work with our partners to develop programmes in support of human rights and to understand the complex issues around modern slavery to ensure that all those working within our Group and our supply chain are treated with dignity and respect. We are committed to building knowledge and awareness and have developed a range of training initiatives for our employees, suppliers, business partners and service providers to help promote human rights.

Our global teams were able to monitor supply chain issues and work with suppliers and factories to ensure that our standards were met.

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

### Collaboration and education – response to the war in Ukraine

In early 2022, the war in Ukraine had an immediate and significant impact on its citizens. As a business we had one active factory in Ukraine at the time and wanted to work alongside other brands as part of a streamlined approach.

Through our membership of the Ethical Trading Initiative (ETI), we participated in a working group to share learnings and agree collective actions. A set of supplier guidelines were developed and translated into Ukrainian, English, Romanian, Polish and Italian, with the intention of providing clear guidance and communication to our suppliers in Ukraine and the surrounding countries which were likely to be impacted by the migration of displaced people.

The Guidelines for employment and integration of people displaced from Ukraine are available at https://www.ethicaltrade.org/programmes/people-displaced-ukraine and were also circulated to our suppliers via our bespoke supplier communication platform.

# SECTION 172 STATEMENT

This section describes how we have engaged with and considered the interests of our key stakeholders when exercising our duty to promote the success of the Company under section 172(1) of the Companies Act 2006. The principles underpinning section 172 are not only considered at Board level, they are embedded throughout NEXT. Sometimes decisions must be made based on competing priorities of stakeholders. We describe below how the Board seeks to understand what matters to stakeholders and carefully considers all the relevant factors when selecting the appropriate course of action.

## Our stakeholders

Our key stakeholder groups are set out below, with an explanation of why we have identified each as key to NEXT's business. Our many and varied engagement processes help lead us to a better understanding of what matters to our stakeholders. Their views and needs, as well as the consequences of any decision in the long term, are then considered in the business decisions made by the Board and across the entire Company, at all levels. We do this through various methods, including: direct engagement by Board members; receiving reports and updates from members of management who engage with such groups; and coverage in our Board papers of relevant stakeholder interests with regard to proposed plans.

### Our workforce – see pages 107 to 108

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

### Customers – see page 109

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

### Communities and the Environment – see page 109

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

### Investors – see page 110

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

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

### Suppliers – see page 109

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

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

### Regulators – see page 109

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

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

## Our workforce

As at the year end, each of our executive directors joined NEXT as employees over 25 years ago, prior to being promoted to the Board. This gives them extensive knowledge of the business as well as an acute insight into the mood, culture and views of their colleagues. All of our executive directors have a high degree of personal oversight and engagement in the business. The Board also engages in the following ways:

- Annual Business Review Meetings, which were rebranded this year from the former Recruit, Reward and Retain forums.
- Discussing the output of employee engagement surveys and agreeing follow up actions.
- Presentations on performance and strategy from the Chief Executive and the Group Finance Director following the announcements of our trading results. Where possible, the directors present to the business in person, but a video link is sent to all employees so everyone really is invited. This year, we followed up in each business area to see how the presentation to employees was received, and how it could be improved in the future. Our employees told us that they like to hear from the directors, and new starters in particular appreciate the opportunity these presentations give them to understand the business. This feedback was presented to the Board.
- Visits to stores and warehouses.
- Online performance, development and feedback tools.

Engagement with our employees has always been vital to the success of our business. We continued to engage with our workforce about their health and safety as COVID safety measures were lifted and business areas in which employees were able to work effectively under NEXT's hybrid working model were identified. Business areas were encouraged to review the working from home principles produced by the executive directors in line with department needs.

# SECTION 172 STATEMENT

## Business Review Meetings

During the year we introduced new Business Review Meetings, which replaced our annual Recruit, Reward and Retain (RRR) workforce forums. These meetings form the workforce advisory panels as referred to in the UK Corporate Governance Code and focus on specific business outputs such as efficiencies and ideas to improve engagement. Dame Dianne Thompson, one of our non-executive directors, attended the meetings along with Lord Wolfson (Chief Executive), the HR Director and workforce representatives for each division of the business. These meetings offer our employees the chance to voice their opinions on the issues that are important to them. Following discussion on the key issues in different parts of the business, actions were agreed and feedback was reviewed by the Board. Agreed actions from matters raised in 2022 included:

- Improving transparency around pay to assist with conversations about development.
- To review NEXT's Family Friendly Policies.
- Developing a new manager training programme for certain Head Office departments.

The matters raised at the 2021 forums are being addressed, including a return of staff engagement activities such as our Sports and Social groups and making improvements to the onboarding experience of remote workers.

Our Business Review Meetings were supplemented by Your Team Voice meetings which take place regularly throughout the year. Each business function and area has a nominated Your Team Voice representative, and employees are able to submit question to Business Review Meetings via Your Team Voice meetings. One purpose of Your Team Voice meetings is to agree initiatives coming out of the Business Review Meetings.

## Employee engagement surveys

In 2022, we undertook our second annual employee engagement survey, "Your Voice Counts", which spanned the majority of our business. The survey was sent to over 40,000 employees and response rates were improved from the year before. The survey was conducted anonymously using a third-party tool. The overall score for the whole NEXT Group was almost identical to our score in 2021.

Employees believe that our main strengths as a Group are: management support; peer relationships; and goal setting. Areas identified for improvement included support for mental wellbeing, following which we have launched a Wellbeing site for employees as well as mental health training for managers.

The Board considered results of the survey as well as the initiatives planned to address the matters raised.

## Continuous performance management and feedback

Our online performance and development tool provides a forum for positive and constructive feedback by individuals, peers and managers.

The HR Director attended a meeting of the Board to brief the directors on employee-related matters, including workforce demographics, engagement activities, the results of employee engagement survey, staff retention rates, diversity, whistleblowing, disciplinary and grievance procedures, learning and development activity, pay and reward including gender pay gap and HR initiatives.

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

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

### Case study: workforce

During the year the Board had to consider areas of the business where recruitment continues is difficult. Our Technology department was an area of focus.

Attracting and retaining Tech talent continues to be a challenge. The UK market remains highly competitive with a limited talent pool in the local area. The Tech team headcount grew 23.5% from last year, which had a significant impact on how we induct, integrate, communicate and manage the talent coming through. We are looking to recruit from more diverse gender and cultural groups and geographical locations and timezones. Part of the recruitment challenge is the need to be innovative and create cost effective campaigns to meet our ambitious growth plans in this area. This led to the Board considering and agreeing to the opening of overseas hubs in Sri Lanka and India.

## Our relationships with suppliers, customers and others

### Suppliers

Throughout the year the Board approved major contract renegotiations and strategy with key suppliers, notably with the Group's new warehouse suppliers, construction and technology companies relating to the development of the new Elmsall 3 warehouse, providers of freight forwarding services and certain landlords. We balanced the benefits of maintaining strong partnerships with key suppliers alongside the need to obtain value for money for our investors and excellent quality and service for our customers. Further details on how we engage with our suppliers can be found on pages 100 to 101.

### Customers

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

With the interests of customers in mind, during the year the Board reviewed proposals in respect of capital expenditure on warehouses, major freight forwarding and customer order delivery contracts.

### Regulators

The business is subject to a wide range of regulations. Of particular note is our Finance business which is regulated by the Financial Conduct Authority (FCA) in respect of the provision of consumer credit. As a responsible authorised company, we seek always to co-operate and engage constructively with the FCA and meet its standards. The Audit Committee exercises independent oversight over the regulated Finance business that includes updates on matters under discussion with the FCA.

During the year we received a supervisory visit from the FCA. Having interviewed various key stakeholders they commented on our excellent culture.

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

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

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

## Our impact on the community and the environment

We have a number of targets and initiatives aimed at reducing any adverse impact of our business on the environment and the communities in which we operate. The ways in which we engage with these communities are set out in more detail on page 104 of our Corporate Responsibility Report. During the year we considered our approach to climate change and agreed further measures we can take to reduce our impact on the environment. Details can be found on pages 86 to 97 of the Corporate Responsibility Report.

## Doing the right thing – maintaining high standards of business conduct

### Corporate governance

We have a robust corporate governance framework in place, details of which are set out in our Corporate Governance Report on pages 117 to 123.

### Ethical trading and responsible sourcing

The Audit Committee exercises strong oversight over the Group's activities in these areas including reviewing the work of the COP team and receiving regular updates on Environmental, Social and Governance issues. It reports to the Board on these topics as appropriate. For further details on our approach to ethical trading and responsible sourcing, please see pages 100 to 101 as well as our standalone Corporate Responsibility Report which is available on our corporate website.

### Political donations

No donations were made for political purposes (2022: £nil).

# SECTION 172 STATEMENT

## Shareholders

The Company has just one class of share in issue and so all shareholders benefit from the same rights. The Board does not take any decisions or actions, such as selectively disclosing confidential or inside information, that would provide any shareholder or group of shareholders with any unfair advantage or position compared to the shareholders as a whole.

How the Board engages:

- Regular calls and meetings between shareholders and the Chief Executive and Group Finance Director.
- Roadshows and conferences with institutional investors.
- Major shareholders are invited to the annual and half year results presentations.
- Meetings and calls between major shareholders and the Chairman and Remuneration Committee Chairman on governance and remuneration matters.
- Regular communication with institutional investors by the Company Secretary and senior management, particularly on Environmental, Social and Governance matters.

### Shareholder engagement

During 2022 we engaged with investors on a range of topics including:

- The directors' remuneration policy.
- Governance including Board composition.
- Human rights and ethical trading.
- The environment, sustainability and responsible sourcing.
- Company performance against its strategy.

The Board receives regular information on investor views through a number of different channels:

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

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

The interests of investors were considered as part of the Board's decisions throughout the year including with regard to the resumption of dividends.

## Long term decisions

Within the fast-moving fashion retail sector, the operational cycle is short and has become even shorter within recent years. Despite this, we are mindful that our strategic decisions can have long term implications for the business and its stakeholders and these implications are carefully assessed.

The most prevalent example of this is in the Board's decisions with regard to capital allocation. The Board balances:

- The expectations of long term investors on dividends and the return of capital to shareholders via the share buyback programme; with
- The increased need for capital expenditure on warehouses, systems, stores, and our Total Platform investments to support the growth of the business.

We recognise the importance of providing our shareholders with consistent and reliable dividend returns and in 2022 we returned to our pre-pandemic ordinary dividend cycle, following the payment of two special dividends for the 2021 financial year.

# NON-FINANCIAL INFORMATION STATEMENT



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

| Reporting requirement | Relevant information | Policies and Standards |
|---|---|---|
| **Information, to the extent necessary for an understanding of the Company's development, performance and position and the impact of its activity, relating to:** | | |
| **1. Environmental matters (including the impact of the Company's business on the environment)** | • Our principles – page 85<br>• Environment – pages 86 to 97<br>• Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 109 | • Environment Policy<br>• Timber Sourcing Policy*<br>• Protecting Forests Through Fabric Choices Policy*<br>• Cotton Sourcing Policy* |
| **2. The Company's employees** | • Our principles – page 85.<br>• Our People – pages 98 to 99.<br>• Section 172 Statement – Having regard to the interests of the Company's employees – pages 107 to 108 | • Staff Handbook<br>• Diversity and Inclusion Policy<br>• HR Policies including Flexible Working, Safeguarding, Adoption Leave, Parental Leave, Continuing Education and Equal Opportunities<br>• Whistleblowing Policy<br>• Group Health and Safety Policy* |
| **3. Social matters** | • Our principles – page 85<br>• Environment, Our People, Our Suppliers, Our Customers and Products, Community, Human Rights and Modern Slavery – pages 86 to 106<br>• Section 172 Statement – Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct – page 109 | |
| **4. Respect for human rights** | • Our principles – page 85<br>• Human Rights and Modern Slavery – pages 105 to 106<br>• Section 172 Statement – Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct – page 109 | • Human Rights and Modern Slavery Policy*<br>• Data Retention Policy<br>• Customer Privacy Policy*<br>• Employee Data Privacy Policy |
| **5. Anti-corruption and anti-bribery matters** | • Our principles – page 85<br>• Section 172 Statement – Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct – page 109<br>• Whistleblowing – Audit Committee Report – page 132 | • Staff Handbook<br>• Anti-Bribery and Anti-Corruption Policy*<br>• Competition Law Policy<br>• Supplier Code of Practice Standards*<br>• Whistleblowing Policy* |
| **Required information** | | |
| **6. Business model** | • Business model – pages 70 to 71 | |
| **7. Policies in relation to (1) to (5) above, related due diligence processes and a description of the outcome of those policies*** | • Our principles – page 85 | |
| **8. Principal risks in relation to (1) to (5) above** | • Risks and Uncertainties – pages 74 to 82<br>• Viability assessment – pages 83 to 84 | |
| **9. Relevant non-financial KPIs** | • Section 172 Statement – Having regard to the impact of the Company's operations on the community and the environment – page 109<br>• Environment, Our People, Community – pages 86 to 99 and 104 | |

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

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

On behalf of the Board

**Amanda James**
Group Finance Director

29 March 2023

# GOVERNANCE

# DIRECTORS' BIOGRAPHIES
## Directors and Officers

### Michael Roney
**CHAIRMAN**

KEY SKILLS AND EXPERIENCE:
Michael joined the Board as Deputy Chairman in February 2017 and became Chairman in August 2017. Michael brings significant international leadership experience to the Board; he was previously the Chief Executive of Bunzl plc from 2005 until his retirement in April 2016, Chief Executive of Goodyear Dunlop Tires Europe BV and non-executive director of Johnson Matthey plc.

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

APPOINTED TO THE BOARD
February 2017

COMMITTEE MEMBERSHIP
Remuneration and Nomination (Chairman)

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

KEY SKILLS AND EXPERIENCE:
Simon has deep knowledge of all areas of the NEXT business, together with strong leadership and strategic expertise, having led as Chief Executive since 2001. He joined the Group in 1991 and was appointed Retail Sales Director in 1993. He became responsible for NEXT Directory in 1995 and was appointed to the Board in 1997 with additional responsibilities for Systems. Simon was appointed Managing Director of the NEXT Brand in 1999 before his appointment as Chief Executive.

APPOINTED TO THE BOARD
February 1997

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

KEY SKILLS AND EXPERIENCE:
Amanda brings extensive financial knowledge to the Board, having joined the Group in 1995 and led the management accounting and commercial finance teams since 2005. In 2009, Amanda was appointed Commercial Finance Director and was promoted to NEXT Brand Finance Director in 2012. Amanda has comprehensive knowledge of NEXT's operations and has played a central role in the financial management of the business. Amanda also has responsibility for Legal and Compliance.

APPOINTED TO THE BOARD
April 2015

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

KEY SKILLS AND EXPERIENCE:
Jane has profound understanding of NEXT's operations, having joined NEXT Retail in 1985 as a sales assistant in one of our London stores. Jane worked her way through store management to be appointed Sales Director in 2000, responsible for all store operations and training. In 2006 Jane was given additional responsibility for Retail Marketing and in 2010 was appointed Group Sales and Marketing Director, adding Directory and Online Marketing to her portfolio. She assumed responsibility for Human Resources and the Customer Service Contact Centre in August 2020.

APPOINTED TO THE BOARD
July 2013

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

KEY SKILLS AND EXPERIENCE:
Richard has a wealth of operational and merchandising experience. He joined NEXT in 1991 as a merchandiser. Richard worked his way through management, becoming Menswear Product Director in 2001. In 2005 he gained valuable experience in a similar role at another retailer. Richard returned to NEXT in 2006 as Group Merchandise Director, responsible for NEXT's Merchandising function, Product Systems, International Franchise, and Clearance operations. On appointment to the Board, Richard took on additional responsibility for Warehousing, Logistics and Systems within the Group.

APPOINTED TO THE BOARD
May 2018

### Jeremy Stakol
**GROUP INVESTMENTS, ACQUISITIONS AND THIRD PARTY BRANDS DIRECTOR**
Executive Director

KEY SKILLS AND EXPERIENCE:
Jeremy holds a Masters in Professional Accounting and spent his early career in the finance department of a large media company. In 2004 Jeremy joined Lipsy as Managing Director. Jeremy joined the NEXT Group in that role 14 years ago when the company was acquired by NEXT. In more recent years Jeremy has successfully led many of the new investment deals and related Total Platform opportunities (such as Joules, Victoria's Secret, Gap and others).

TO BE APPOINTED TO THE BOARD
April 2023

## Jonathan Bewes

### Senior Independent Non-Executive Director

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

PRINCIPAL EXTERNAL APPOINTMENTS:
Non-Executive Director and Chair of the Audit and Risk Committee of The Sage Group plc

APPOINTED TO THE BOARD
October 2016

COMMITTEE MEMBERSHIP
Audit (Chairman), Remuneration and Nomination

## Soumen Das

### Independent Non-Executive Director

KEY SKILLS AND EXPERIENCE:
Soumen is Chief Financial Officer of SEGRO plc, the largest UK and European Real Estate Investment Trust and a constituent of the FTSE 100. He has over 12 years' board level experience with listed companies, having been Managing Director and Chief Financial Officer of Capital & Counties Properties plc prior to joining SEGRO, and was previously an executive director with UBS within the investment bank. Soumen is also Co-Chair of the Parker Review.

PRINCIPAL EXTERNAL APPOINTMENTS:
Chief Financial Officer of SEGRO plc

APPOINTED TO THE BOARD
September 2021

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

## Tom Hall

### Independent Non-Executive Director

KEY SKILLS AND EXPERIENCE:
Tom is a partner at Apax Partners, the global private equity firm. He joined Apax in 1998 and leads its Internet/Consumer investing activities in Europe. In that role, he serves on the board of a number of retailers and digital marketplaces. He has considerable experience of working with businesses dealing with the strategic, operational and managerial challenges and opportunities created by rapidly changing consumer behaviour. Prior to joining Apax, Tom worked at S.G. Warburg and Deutsche Bank.

PRINCIPAL EXTERNAL APPOINTMENTS:
Advisory Board Director of Takko Fashion
Supervisory Board Director of Wehkamp
Non-Executive Director of MATCHESFASHION
Non-Executive Director of Baltic Classifieds Group PLC, Partner at Apax Partners

APPOINTED TO THE BOARD
July 2020

COMMITTEE MEMBERSHIP
Audit, Remuneration (Chairman) and Nomination

## Tristia Harrison

### Independent Non-Executive Director

KEY SKILLS AND EXPERIENCE:
Tristia is Chief Executive Officer of TalkTalk Telecom Group Ltd and as such has experience of running a large-scale consumer and B2B facing company and knowledge of digital and cyber security. Tristia was Managing Director of TalkTalk's consumer business when it demerged from Carphone Warehouse, which she joined in 2000 and held a number of senior management and executive positions. Tristia is also Chair of the national homelessness charity Crisis.

PRINCIPAL EXTERNAL APPOINTMENTS:
Chief Executive of TalkTalk
Trustee at Crisis
Trustee at Ambitious about Autism

APPOINTED TO THE BOARD
September 2018

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

## Dame Dianne Thompson

### Independent Non-Executive Director

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

PRINCIPAL EXTERNAL APPOINTMENTS:
Chairman and Non-Executive Director of Sanderson Design Group plc
Non-Executive Director of Pagefield Communications Ltd

APPOINTED TO THE BOARD
January 2015

COMMITTEE MEMBERSHIP
Audit, Remuneration and Nomination

## Ian Blackwell

### COMPANY SECRETARY

## Past Company Secretary

**Seonna Anderson**

APPOINTED TO OFFICE
February 2014

RETIRED FROM OFFICE
March 2023

# DIRECTORS’ RESPONSIBILITIES STATEMENT
## Directors’ Responsibilities

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

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

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

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK-adopted International Accounting Standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Parent Company financial statements, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

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

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

The directors are also responsible for the maintenance and integrity of the NEXT plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

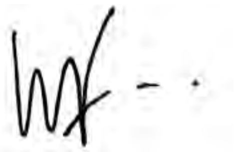
## Directors’ confirmations

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company’s position and performance, business model and strategy.

Each of the current directors, whose names and functions are listed on pages 114 to 115, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board



**Lord Wolfson of Aspley Guise**
Chief Executive

**Amanda James**
Group Finance Director

29 March 2023

# CORPORATE GOVERNANCE REPORT
## Chairman’s Introduction

On behalf of the Board, I am pleased to introduce our Governance Report for the year ended 28 January 2023. This report sets out our approach to effective corporate governance and explains the key features of the Group’s governance structure.

Good corporate governance runs along the foundations of a well run organisation and the external governance landscape, guides and rules continue to evolve. NEXT continues to prioritise doing the right thing in promoting the success of the Company, and through its governance structure, always seeks to do so in the right way.

### Stakeholder engagement

Uncertainty is known to breed challenges and the environment over the past few years has put the spotlight on a number of our key stakeholders. The Board has been required to exercise its judgement on numerous occasions to ensure that the Group’s stakeholders are treated as fairly as possible in a year which has remained challenging.

Key engagement pieces this year have been:

- With our customers and employees, who are especially sensitive to inflationary pressures;
- Consultation with our investors on this year’s Remuneration Policy.

Given the strong performance of the business, we were pleased to be able to return to our pre-pandemic ordinary dividend cycle and the Board has proposed an ordinary dividend to be paid in August 2023, subject to approval by our shareholders at the AGM in May.

Further details on how we have engaged with our stakeholders can be found on pages 107 to 110.

### Directors’ Remuneration Policy

This year our Directors’ Remuneration Policy is to be put forward for a binding shareholder vote at our 2023 AGM.

Following consultation with our major shareholders, we are not proposing any changes to the policy. You can read more about our proposed Policy in the Remuneration Report on pages 133 to 162.

### Board effectiveness and diversity

It is important that the Board, its Committees and individual directors rigorously review their performance and embrace the opportunity to develop where necessary. Having undertaken an externally facilitated annual effectiveness review of our Board and Committees last year, this year’s review was facilitated internally with support from the Company Secretary. The review concluded that the Board continues to operate effectively; further details can be found on page 122.

The Company has once again taken part in the Parker Review and the FTSE Women Leaders Review in relation to its gender and ethnic diversity. We talk about this more on page 124.

### Continuing governance commitment

We believe that good governance provides the framework for stronger long term value creation for all our stakeholders. We apply corporate governance in a way that is relevant and meaningful to our business and consistent with our culture and values.

With the Economic Crime (Transparency and Enforcement) Act coming in to force earlier this year, we have reviewed our sanctions policies and frameworks and taken steps to better understand our beneficial shareholder base, in line with the new requirements.

A watching brief is being kept on the BEIS corporate governance and audit reform as we wait to see how the proposals and timelines for their implementation unfold. Environmental, Social and Governance (ESG) remains a key area of focus for stakeholders who want to work for, shop with or invest in companies who do business responsibly. We are carefully assessing our ESG metrics, targets and reporting with a view to setting out how we will decarbonise as part of a Net Zero Transition Plan in next year’s report. You can read our Corporate Responsibility Report on pages 85 to 106 and our corporate governance compliance statement and supporting disclosures on pages 118 to 123.

**Michael Roney**
Chairman

29 March 2023

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Statement

The statement below, together with the rest of the Corporate Governance Report, provides information on how NEXT has applied the principles in the UK Corporate Governance Code 2018 (the Code), which is the version of the Code that applies to its 2022/23 financial year.

For the year ended 28 January 2023, the Board considers that it has complied in full with the provisions of the Code (available at www.frc.org.uk). Given the external interest in pension alignment as recommended by provision 38 of the Code, the Board notes that the executive directors at NEXT have very long service at the Company. Whilst the pension provision offered to new joiners has changed over time (which is consistent with wider market practice), the Board considers it more relevant to consider the alignment of the pension contribution rates of the executives in the context of the workforce recruited at the same time. Each executive director is provided with pension contributions no more generous than those provided to colleagues recruited at the same time. Full details of the pension arrangements of the executive directors are given on page 154 of the Directors' Remuneration Report.

Disclosures required by the Disclosure Guidance and Transparency Rules DTR 7.2.6, with regard to share capital are presented in the Directors' Report on page 163. Disclosures required by DTR 7.2.8 relating to diversity policy are presented in the Nomination Committee Report on page 124.

Directors' biographies and membership of Board Committees are set out on pages 114 to 115.

## Board leadership and company purpose

The Board's role is to promote the long term sustainable success of the Company. It does this through:

- Discussions with the executive directors and other members of the senior management team on industry trends.
- Evaluating business development proposals and considering how these will support and strengthen components of the business model.
- A policy of continuous identification and review of principal business risks, including identifying key and emerging risks, determining control strategies and considering how those risks may affect the achievement of business objectives, taking into account risk appetite, as detailed on pages 74 to 82.
- Our annual viability assessment which is undertaken by reference to the business model, strategy and the principal risks and mitigating factors as well as the current financial position and historical financial performance and forecasts – see pages 83 to 84.

In particular, during 2022/23 the Board:

- Assessed a number of potential acquisitions and investment opportunities with a view to enhancing the Company's offering to customers. In assessing these opportunities, the Board had regard to strict financial criteria. We approved a number of opportunities which are discussed in more detail in the Chief Executive's Review.
- Considered and approved significant capital expenditure including the pallet extension of our Dearne Valley warehouse.
- Agreed the assessment period for the statement of viability at the recommendation of the Audit Committee – see page 129.

At its heart, the purpose of the Company is to source and trade excellent quality clothing, homeware and beauty products in order to make a profit for its shareholders. We aim to do this in a responsible way and to do the right thing by our employees, our customers, our suppliers and our wider stakeholders. Our Corporate Responsibility Report sets out the way in which we fulfilled our responsibilities this year.

### Culture

The directors are responsible for ensuring a healthy and supportive culture within the Group. We monitor this through direct employee engagement activities (see pages 107 to 108) and discussions with the executive directors, the HR Director and other members of management. We assess and monitor this in the following ways and it is through these activities we ensure that the company's culture aligns with its purpose, value and strategy:

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

During the year we continued with our employee engagement activities, in particular the workforce Business Review Meetings.

Our values are set out in the Corporate Responsibility Report on page 85 and the Non-Financial Information Statement summarises the Company's supporting policies on page 111. Our Whistleblowing Policy encourages workers to report concerns or suspicions about any wrongdoing or malpractice, and provides a number of ways to do this, including via the confidential NEXT Integrity line (managed by Crimestoppers). The Audit Committee Report contains more details of the Company's whistleblowing procedures and the Audit Committee's oversight.

Our Board members also strive, through their own behaviours, to set the tone from the top in conducting themselves appropriately and in line with the Group's values.

Information on the Company's approach to investing in and rewarding its workforce is set out in the Strategic Report on pages 98 to 99.

## Resourcing

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

## Risk management and internal controls

The Board is responsible for keeping the effectiveness of the systems of risk management and internal controls under review – see page 123.

## Engagement with shareholders

Significant time and effort is invested in providing detailed and transparent information to shareholders and maintaining regular and effective dialogue. Rather than delegation to an investor relations team, Lord Wolfson and Amanda James, as Chief Executive and Group Finance Director, engage directly with investors on a regular basis throughout the year. Full year and other public announcements are presented in a consistent format and are made as meaningful, understandable, transparent and comparable as possible. This information is also made publicly available on the Company's corporate website nextplc.co.uk.

This year also involved consultation with our major shareholders as we reviewed our Directors' Remuneration Policy.

Our Section 172 Companies Act Statement on page 107 details how the views of shareholders have been taken into account during the year.

## Engagement with other stakeholders

The views of other providers of capital and key stakeholders are also considered. Please see the Section 172 Statement on page 107 for information on how the Board does this.

With regard to engagement with the workforce, the Board uses various methods including engagement with a workforce panel and attendance by a non-executive director at those panels. More details can be found in the Section 172 Statement on page 107. The Board considers that, taken together, the arrangements described deliver an effective means of ensuring the Board stays alert to the views of the workforce.

# Division of responsibilities

## Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman and Chief Executive which is set out in writing and agreed by the Board. The Chairman manages the Board to ensure that:

- The Group has appropriate objectives and an effective strategy.
- There is a high calibre Chief Executive with a team of executive directors able to implement the strategy.
- There are procedures in place to inform the Board of performance against objectives.
- The Group is operating in accordance with a high standard of corporate governance.

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

The Chairman sets the Board's agenda and is also responsible for promoting a healthy culture of openness, challenge and scrutiny, and ensuring constructive relations between executive and non-executive directors.

## Independence of non-executive directors

More than half of the directors at our financial year end, and half of the directors following the appointment of Jeremy Stakol, excluding the Chairman, are non-executive directors. The Board considers that all of its non-executive directors, except for the Chairman, are independent when assessed against the requirements of the Code and their knowledge, diversity of experience and other business interests continue to enable them to contribute significantly to the work of the Board. Michael Roney, the Chairman, met the independence requirements set out in the Code on his appointment in 2017.

## Directors' conflicts of interest

In accordance with the Company's Articles of Association, the Board has a formal process in place for situational conflicts to be authorised by non-conflicted directors. In deciding whether to authorise a situational conflict, the non-conflicted directors take into account their general duties under the Companies Act 2006. Limits or conditions can be imposed when giving an authorisation or subsequently if considered appropriate. Any situational conflicts considered by the Board, and any authorisations given, are recorded in the Board minutes and in a register of conflicts which is reviewed annually by the Board.

## Senior Independent Director

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

# CORPORATE GOVERNANCE REPORT

## Noting of directors' concerns

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

## Review of directors' performance

As Senior Independent Director, Jonathan Bewes led the appraisal of Michael Roney's performance as Chairman in the year through individual discussions with the other directors. Michael Roney appraised the performance of Lord Wolfson as Chief Executive.

The performance of the executive directors is monitored throughout the year by the Chief Executive and the Chairman. The Chairman also monitors the performance of the non-executive directors. Appropriate feedback is provided where necessary. For more information on the Board effectiveness evaluation process, please see page 122.

At each Board meeting the Board receives reports from the Chief Executive on the performance of the business. This includes scrutiny of performance against clear financial objectives.

## Governance framework

The structure of the Board and its governance framework is set out below. The Board believes that it facilitates the operation of an open and straightforward culture without complex hierarchies and over-delegation of responsibilities.

### Shareholders

### Chairman

Responsible for the leadership of the Board and ensuring that it operates effectively through a healthy culture of openness, challenge and scrutiny.

### Board of Directors

Responsible for providing effective leadership by setting business strategy and overseeing delivery in a way that delivers long term growth for the benefit of NEXT's shareholders. The Board maintains a balanced approach to risk within a framework of effective controls and taking into account the interests of a diverse range of stakeholders.

### Board Committees

The terms of reference for each Committee are documented and agreed by the Board. They are reviewed regularly and updated as necessary and are available on the corporate website nextplc.co.uk.

Their key responsibilities are set out below.

#### Nomination Committee

- Keep under review the composition, size, structure and diversity of the Board and its Committees.
- Evaluate the balance of skills, experience and diversity of the Board.
- Provide succession planning for the Board and senior management.
- Lead the process for new Board appointments.

Committee Report on page 124

#### Audit Committee

- Review and monitor the integrity of the Group's Financial Statements.
- Review and monitor the adequacy and effectiveness of the risk management framework and the systems of internal controls (including whistleblowing procedures).
- Review and monitor the effectiveness and independence of the external and internal auditors.

Committee Report on pages 125 to 132

#### Remuneration Committee

- Responsible for setting the Remuneration Policy for all executive directors and the Chairman, including pension rights and any compensation payments.
- Recommend and monitor the level and structure of remuneration for senior management.
- Review the ongoing appropriateness and relevance of the Remuneration Policy when setting remuneration.

Committee Report on pages 133 to 162

### Other Key Governance Steering Groups

These meetings have specific areas of responsibility.

Each of the below steering groups held meetings during the year to review and monitor specific risks, activities and incidents:

**Risk Steering Group –** Risk identification and risk management activities.

**Treasury –** Group's treasury policy, treasury operations and funding activities.

**Information Security and Data Protection –** Group's information security and cyber-related activities.

**Health and Safety –** Group's health and safety activities.

**ESG Steering Group –** ESG risk monitoring and setting of ESG priorities.

### Chief Executive

Responsible for the day-to-day running of the Group's business and performance, and for the development and implementation of business strategy.

### Executive/operational management

The Chief Executive has delegated authority for the day-to-day management of the business to operational management comprising other executive directors and senior management who have responsibility for their respective areas.

This includes important weekly NEXT Brand trading and capital expenditure meetings which consider the performance and development of the NEXT Brand through its different distribution channels. This and other meetings also focus on risk management of business areas in respect of the NEXT Brand, including product, sales, customer experience, property and stores, warehousing, systems and personnel.

## Matters reserved for the Board

There is a formal schedule of matters reserved for the Board. These include investments, significant items of capital expenditure, share buybacks, dividend and treasury policies. The Board is also responsible for:

- The long term success of the Company, setting and executing the business strategy and overseeing its delivery.
- Providing effective leadership.
- Setting and monitoring the Group's risk appetite and the system of risk management and internal control.
- Monitoring implementation of its policies by the Chief Executive.
- Approving semi-annual Group budgets and regular review of performance against budget. Forecasts for each half year are revised and reviewed monthly.

Certain other matters are reported weekly or monthly including sales, treasury operations and capital expenditure programmes.

## Board attendance

The table below shows the attendance at Board and Committee meetings during the year to 28 January 2023. All independent non-executive directors are members of the Nomination, Audit and Remuneration Committees. This allows the non-executive directors to deepen their understanding of the NEXT business, control and risk environment and enhance their contribution to the Board and its Committees.

The Board is satisfied that each of the directors is able to allocate sufficient time to the Company to discharge their responsibilities effectively. Contracts and letters of appointment of directors are made available at the AGM, and are available for inspection at the Company's registered office during normal business hours or on request.

| Directors | Role | Board | Nomination | Audit | Remuneration |
|---|---|---|---|---|---|
| Number of meetings held in the year | | 8 | 2 | 5 | 8 |
| Lord Wolfson | Chief Executive | 8/8 | – | – | – |
| Amanda James[1] | Group Finance Director | 8/8 | – | – | – |
| Richard Papp | Group Operations & Merchandising Director | 8/8 | – | – | – |
| Jane Shields | Group Sales, Marketing & HR Director | 8/8 | – | – | – |
| Michael Roney[1] | Chairman | 8/8 | 2/2 | – | 8/8 |
| Jonathan Bewes | Senior Independent Director | 8/8 | 2/2 | 5/5 | 8/8 |
| Soumen Das | Non-executive director | 8/8 | 2/2 | 5/5 | 8/8 |
| Tom Hall | Non-executive director | 8/8 | 2/2 | 5/5 | 8/8 |
| Tristia Harrison | Non-executive director | 8/8 | 2/2 | 5/5 | 8/8 |
| Dame Dianne Thompson | Non-executive director | 8/8 | 2/2 | 5/5 | 8/8 |

1. Michael Roney and Amanda James are not members of the Audit Committee, however they attend Audit Committee meetings during the year by invitation.

## Board Committees

As detailed in the diagram opposite, the Board has appointed Committees to carry out certain aspects of its duties. Each is chaired by a different director and has written terms of reference which are available on the Company's corporate website nextplc.co.uk. Each Committee Chairman reports regularly to the Board on how that Committee has discharged its responsibilities.

## External appointments during the year

During the year, the Board approved Soumen Das' appointment as Co-chair of the Parker Review Committee. After confirming that there were no conflicts of interest and considering the likely time commitment required to fulfil this role, the Board was satisfied that this appointment would not inhibit Soumen's ability to continue to effectively discharge his duties and responsibilities as a non-executive director of NEXT.

## Information and support

There is a regular flow of information between all directors. The former Company Secretary attended all Board meetings; she advised the Board on corporate governance matters and facilitated the flow of information within the Board. The Board approved the appointment of the new Company Secretary.

The Company has an open culture; its non-executive directors meet on a formal and informal basis with a broad range of NEXT management and have unrestricted access to the business and its employees.

If directors decide it is necessary to seek independent advice about the performance of their duties with the Company, they are entitled to do so at the Company's expense. Details of professional assistance in relation to Remuneration Policy matters are shown on page 162.

# CORPORATE GOVERNANCE REPORT

## Composition, succession and evaluation

### Director appointments

The Nomination Committee Report on page 124 contains information on the procedure for appointment of new directors to the Board, succession planning for Board and senior management positions and information on the Company's diversity approach.

### Board composition

The Board comprised five independent non-executive directors (including the Senior Independent Director), the Chairman and four executive directors who all bring considerable knowledge, skills and experience to the Group. As is best practice, the Board is continually assessed and periodically refreshed to ensure it maintains an appropriate balance of skills and experience.

The Board approved the appointment of Jeremy Stakol as an executive director with effect from 3 April 2023 (see page 124).

### Re-election and election of directors

Under the Company's Articles of Association, directors are required to stand for re-election at least once every three years. However, in accordance with the Code, all directors stand for re-election or election at each AGM.

The specific reasons why the Board considers that each director's contribution is, and continues to be, important to the Company's long term sustainable success are set out in the directors' biographies on pages 114 to 115.

### Board induction and development

On joining the Board, new members receive a personalised induction, tailored to their experience, background and understanding of the Group's operations. The induction programme includes:

- Visits to warehouses and stores.
- Attendance at key operational meetings.
- Meetings with operational directors and senior managers, giving an overview of the key areas of the business.
- Meetings with the Chairs of each of the Board and its Committees and the external audit partner.
- A briefing from the Company Secretary, the Group's corporate broker and external lawyers on the duties of a public company director.
- Access to past Board, Committee and other key governance papers.

Individual training and development needs are reviewed as part of the annual Board evaluation process and training is provided where appropriate, requested or a need is identified. All directors receive frequent updates on a variety of issues relevant to the Group's business, including legal, regulatory and governance developments, with visits to stores and warehouse operations organised periodically to help directors' understanding of the operational aspects of the business.

### Board effectiveness evaluation

An outcome of last year's externally facilitated board evaluation was the independent quality assessment of the Internal Audit function (see page 130).

This year's annual evaluation of the Board and its Committees was internal and facilitated by the Company Secretary. Following a briefing provided by the Chairman and Company Secretary, each of the directors completed a questionnaire designed to elicit their views on all aspects of the effectiveness of the Board, its members and its Committees. The questions covered eleven main areas, covering composition, experience, dynamics, the Chairman's leadership, directors' contribution and the extent to which the Board fulfils its role and responsibilities with particular regard to strategy, risk oversight and succession planning. The review concluded that the Board has continued operating effectively, offering a good balance of support and challenge and adding value to an increasing extent. Examples of areas positively reported include:

- The high quality of debate leading to objective and collaborative decision making.
- A valuable and thorough induction programme for new directors.

Areas identified as possible opportunities to develop the Board's effectiveness further include:

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

The Chairman and Company Secretary are putting in place appropriate action plans in response to the evaluation findings and will review progress during the course of 2023/24.

# Audit, risk and internal control

## Audit Committee and independent auditor

For further information on the Company's compliance with the Code provision relating to the Audit Committee and auditors, please refer to the Audit Committee Report on pages 125 to 132. The independent auditors' responsibilities are set out on page 173 and the Board's statement as to the Annual Report and Accounts being fair, balanced and understandable can be found on page 116.

## Going concern and viability assessment

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report, which also describes the Group's financial position, cash flows and borrowing facilities. Further information on these areas is detailed in the financial statements. Information on the Group's financial management objectives and how derivative instruments are used to hedge its capital, credit and liquidity risks is provided in Note 28 of the financial statements.

The directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements. The directors have also assessed the prospects of the Company over a three year period. Further details of the viability assessment are provided on pages 83 to 84.

## Risk management and internal control

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

Risk management and internal control is a continuous process and has been considered by the Board on a regular basis throughout the year (see the description of the Group's risk management and internal control framework on page 74 for more information). This includes identifying and evaluating ESG, principal and emerging risks, determining control strategies and considering how they may impact on the achievement of business objectives.

The Board has carried out a robust assessment of the principal and emerging risks facing the Company and has also conducted an annual review of the effectiveness of the systems of internal control during the year – see page 76 in the Strategic Report for further information.

The Board promotes the development of a strong control culture within the business. The Audit Committee regularly reviews strategic and operational risk and the Audit Committee and Board have reviewed the principal risks (described on pages 76 to 82) and the associated financial, operational and compliance controls and mitigating factors. The Audit Committee discusses these risks with the relevant directors and senior management both at Committee meetings and via other face to face meetings held during the year where required.

The Board considers that the Group's management structure and continuous monitoring of key performance indicators are able to identify promptly any material areas of concern. Business continuity plans, procedure manuals and codes of conduct are maintained in respect of specific risk areas and business processes. The management of business risk is an integral part of Group policy and the Board will continue to develop risk management and internal controls where necessary.

The use of a Group accounting manual and prescribed reporting procedures for finance teams throughout the Group ensures that the Group's accounting policies are clearly established and consistently applied. Information is appropriately reviewed and reconciled as part of the reporting process and the use of a standard reporting package by all entities in the Group ensures that information is presented consistently to facilitate the production of the consolidated financial statements.

# Remuneration

The Company's remuneration policies and practices are designed to support strategy and promote long term sustainable success. They are aligned to the Company's purpose and values and linked to the successful delivery of the Company's long term strategy. You can read about the Company's proposed Remuneration Policy including considerations taken on board and the work of the Remuneration Committee in the Remuneration Report on pages 133 to 162.

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

# NOMINATION COMMITTEE REPORT

## Membership and meetings

| Members |
|---|
| Michael Roney (Committee Chairman) |
| Jonathan Bewes |
| Soumen Das |
| Tom Hall |
| Tristia Harrison |
| Dame Dianne Thompson |

| Skills and experience | Number of directors |
|---|---|
| Retail/Commercial/Operational | 8 |
| Listed market experience and governance | 8 |
| CEO experience | 4 |
| Brand marketing | 4 |
| Cyber risk/Digital | 3 |
| Finance/Accounting | 3 |
| Property | 2 |

The Committee member attendance table is shown on page 121. Lord Wolfson also attends the Nomination Committee meetings by invitation. In addition to formal meetings during the year, there were regular informal discussions on succession plans and appointments at the senior leadership team level.

The Committee's roles and responsibilities are covered in its terms of reference which are available on our corporate website nextplc.co.uk.

An annual evaluation of the Nomination Committee's performance was undertaken as part of the Board evaluation process. Having been externally facilitated in 2021/22, an internal process was undertaken this year. Further details are set out on page 122. The review concluded that the Committee continues to operate effectively.

## Committee activities in 2022/23

### Board appointments

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

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

In February 2023, the Company announced the appointment of Jeremy Stakol as an executive director with effect from 3 April 2023 and he will stand for election at the upcoming AGM. Jeremy will take on the role of Group Investments, Acquisitions and Third Party Brands Director. Jeremy joined Lipsy as Managing Director in 2004 and joined the NEXT Group in that role 14 years ago when the company was acquired by NEXT. In more recent years Jeremy has successfully led many of the new investment deals and related Total Platform opportunities. NEXT has a good track record of internal promotions to the Board and has not made an external appointment of an executive director for over 34 years.

### Succession planning

During the year, the Committee considered the succession arrangements for the Board and for the operational directors below Board level. We reviewed a skills matrix which captured the core skills, knowledge, experience and diversity represented by the Board members.

This provides a framework for considering the skills we wish to focus on when preparing role specifications and evaluating potential new Board candidates. Our current Board members each bring a broad range of individual skills, knowledge and experience. A summary of the skills of our directors is shown below.

Dame Dianne Thompson is our longest serving non-executive director, having been appointed to the Board in 2015. It is intended that Dianne will stand down from the Board next year and a search for a replacement non-executive director will commence in due course.

### Crisis situation succession

During the year, we also considered crisis situation succession arrangements in the event of sudden changes in the availability of executives and key operational director personnel. The business has a strong track record of successful internal promotions to both operational director and executive director positions, and we were able to clearly identify potential candidates to immediately cover for key personnel should the need arise.

## Diversity and inclusion

Appointments to the Board, as with other positions within the Group, are made on merit according to the balance of skills and experience offered by prospective candidates. As a company, we acknowledge the benefits of diversity in terms of business experience and individual appointments are made irrespective of personal characteristics such as race, religion or gender. The Committee will always seek to appoint the candidate with the most appropriate skills and experience.

Employment positions throughout the Company are filled with the candidates who possess the most appropriate skills and competencies relevant for the particular job role. We have a policy to treat all employees fairly and equally regardless of gender, sexual orientation, marital status, race, colour, nationality, religion, ethnic or national origin, age, disability or union membership status. Although we do not set specific targets for diversity, we satisfy the Parker Review recommendations to have at least one Board director from an ethnic minority background, and at the financial year end, women represented 40% of our Board. In terms of the combined executive committee and their direct reports, NEXT was ranked second in the FTSE 100 Rankings for 2022 Women on Boards and in Leadership in the Women Leaders Review: Achieving Gender Balance (February 2023).

Further analysis of employees by gender is given in the Strategic Report on page 99.

**Michael Roney**
Chairman of the Nomination Committee

29 March 2023

# AUDIT COMMITTEE REPORT
## Chairman's Introduction

I am pleased to present the Audit Committee's report for the year ended 28 January 2023. This report explains the Committee's responsibilities and how it has discharged them over the course of the year.

On the following page is a summary of the activities undertaken by the Committee during the year, which broadly fall into five categories: financial reporting, external audit, internal control, risk management and internal audit. The Committee assists the Board through overseeing, challenging and monitoring the Company's frameworks and disclosures, along with management's judgements in these areas.

It was another busy year for NEXT, which saw a partial reversal in the shift from Online to Retail as well as the acquisition of equity stakes in a number of new Total Platform clients and other businesses. The Committee challenged management on its associated accounting judgements, and further information about this can be found on pages 127 to 128.

The Committee is mindful of the imminent formation of ARGA (the Auditing, Reporting and Governance Authority).

Good work is also underway within the NEXT Internal Audit function, which is working to implement some of the recommendations identified by another external review in the year. The Company has also taken the opportunity to conduct an externally facilitated review of its key financial reporting controls environment, and the Committee was pleased to receive reports from management of the current position and the proposed improvements to be made.

All that remains is for me to thank the management team at NEXT and all Committee members for their valuable contributions which support the work of the Committee.

**Jonathan Bewes**
Chairman of the Audit Committee

29 March 2023

## Role of the Committee

The Committee's roles and responsibilities are covered in its terms of reference which are available on our corporate website at nextplc.co.uk. These terms of reference were most recently reviewed by the Board in November 2022.

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

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

## Membership and meetings

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

| Member |
|---|
| Jonathan Bewes (Committee Chairman) |
| Soumen Das |
| Tom Hall |
| Tristia Harrison |
| Dame Dianne Thompson |

The Committee held five scheduled meetings during the year. The meeting attendance table is shown on page 121. In advance of each meeting the Committee Chairman met with the Group Financial Controller, the Company Secretary and Central Finance Director, and the external audit partner to discuss their reports as well as any relevant issues. He also had regular meetings with the Heads of Internal Audit and Compliance where the Group's internal controls, governance framework and the progress of the internal audit work programme is reviewed.

The Group Finance Director and the Chairman attended all of this year's meetings by invitation. Executive directors and senior managers are invited to attend and present at Committee meetings regularly in order to reinforce a strong culture of risk management and to keep the Committee up to date with events in the business. The Committee meets without management present on a regular basis, and meets privately with the Heads of Internal Audit and Compliance and the external auditor as necessary and at least annually.

Details of the directors' skills, experience and qualifications can be found in the biographies on pages 114 and 115. The Committee's wide range of financial and commercial skills and experience serves to provide the necessary knowledge and ability to work as an effective committee and to robustly challenge the Board and senior management as and when appropriate. The Audit Committee Chairman and Soumen Das, both Chartered Accountants, possess recent and relevant financial experience and the Committee as a whole continues to have competence relevant to the sector. None of the Committee's members has a connection to PwC, the external auditor.

## Committee evaluation

During the year, the Committee's performance was assessed as part of the annual Board evaluation process. Following an externally facilitated assessment in 2021/22, this year's assessment was conducted internally and concluded that the Committee continues to operate effectively. One area identified was the length and focus of some papers submitted to the Committee and it was agreed that contributors would be provided with a new template to use for papers. Further details of this year's evaluation can be found on page 122.

# AUDIT COMMITTEE REPORT

## Summary of key Committee activities during the year

### Financial reporting

- Reviewed the annual report and interim financial statements.
- Reviewed the going concern and viability statements.
- Conducted a fair, balanced and understandable assessment.
- Considered the key accounting judgements and estimates.
- Reviewed the appropriateness and implementation of the accounting policies.
- Reviewed the appropriateness and application of Alternative Performance Measures (APMs).
- Noted new accounting and reporting requirements.
- Reviewed material non-standard transactions.
- Reported and made recommendations to the Board on financial reporting matters.

### External audit

- Reviewed audit approach and planning, including significant audit risks. This also included an assessment of how the revised auditing standard ISA 315 would impact on the audit process.
- Reviewed audit findings and challenged management on its views and actions to address the findings.
- Assessed external auditor effectiveness and independence.
- Reviewed the findings of the FRC's audit quality review inspection of NEXT's 2021/22 audit.
- Approved the audit and non-audit fee policy and fees.
- Received auditor views on management and controls.
- Reported to the Board on the audit process, the effectiveness of the external auditor, the results of the external audit, and made a recommendation to the Board on the re-appointment of the external auditor.

### Internal control, risk management and internal audit

- Oversight of the risk management systems.
- Reviewed the principal risks.
- Considered risk reviews from business areas including information security, data protection, product operations, FCA compliance and treasury.
- Approved the Internal Audit plan, including amendments to the plan during the year.
- Reviewed the results of Internal Audit's work and proposed remediation plans.
- Met with Internal Audit without management.
- Reviewed a new Assurance Map.
- Assessed the effectiveness of the Internal Audit function.
- Oversight of progress of the Internal Audit improvement workstreams following an externally facilitated review.

### Other matters

- Received reports and presentations from senior management in other significant business areas such as health and safety, pensions, the new payroll system, legal, and taxation.
- Received regular updates on ESG matters, including TCFD requirements, climate-related risks and Code of Practice.
- Reviewed fraud risk and mitigation.
- Reviewed whistleblowing reports.
- Assessed compliance with the UK Corporate Governance Code.

## Financial reporting

### FRC Audit Quality Review

During the year we were informed that the Financial Reporting Council (FRC) had selected the audit of NEXT plc's January 2022 Annual Report and Accounts for review by its Audit Quality Review team as part of their routine sampling activity. Audit quality review is undertaken by the FRC as part of its annual inspection of audit firms.

The Committee reviewed the FRC's findings and PwC's response and discussed with PwC those actions that will be taken as a result of the review. The FRC review considered the audit of key areas of judgement and estimation, including the application of key judgements and assumptions for the expected credit loss model (on the next**pay** receivables), the net realisable value of inventory and the impairment assessment associated with the Retail stores and related assets. The review highlighted some limited findings for improvement and, having reviewed these and PwC's response, the Audit Committee is satisfied the findings will be appropriately resolved.

### Review of financial statements

The Committee reviews the financial statements of the Group, assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. In order to assist with this review the Committee requested that management present detailed papers explaining and substantiating the basis for the Group's accounting policies, APMs and key areas of judgement and estimation. These papers included a sensitivity analysis on key estimates so that the potential impact of these could be viewed in the context of the financial statements as a whole.

The Committee also recognises the importance of the views of the external auditor and consequently made enquiries to ensure that suitably robust challenges and audit procedures had been performed on these judgements during the course of the audit. There were no significant differences between management and the external auditor.

Having reviewed management's papers and considered the procedures and findings of the external auditor, the Committee is satisfied that the judgements are reasonable, and that suitable accounting policies have been adopted and disclosed in the accounts.

## Significant matters and judgements for the year ending 28 January 2023

The following areas of significance were all subject to review and challenge by the Committee and were discussed and addressed with our external auditor throughout the external audit process.

| Area of focus | Details of Committee review | Reference to financial statements |
|---|---|---|
| 1. Online customer receivables and related allowance for expected credit losses (ECL) | This represents the largest asset class on the Group's Balance Sheet (2023: Gross value £1.5bn and allowance for expected credit losses of £202m).<br><br>Based on detailed reports and thorough discussions with management and the external auditor, including the appropriate ECL model specialists, the Committee reviewed the basis and level of provisions under IFRS 9 "Financial instruments" and the sensitivity of key judgements.<br><br>Specific consideration was given to the impact of the increase in interest rates and forecast UK inflation on customer indebtedness and expected default rates. Sensitivity analysis on the key assumptions, including management overlays to the base ECL model, has also been reviewed and, where significant, has been disclosed in the Annual Report and Accounts.<br><br>The Committee is satisfied that the judgements made, and the sensitivities disclosed in the Annual Report and Accounts, are reasonable and appropriate. | Page 192-193 and Note 13 |
| 2. Pension scheme funding and accounting | The Group Balance Sheet shows a funding surplus of £157.5m (2022: £156.9m), comprising £780.6m assets and £623.1m defined benefit pension schemes' obligation.<br><br>The Committee reviewed the actuarial assumptions underlying the calculations, discussed with the auditor its view on these assumptions, and was satisfied that they are reasonable.<br><br>The schemes' funding position is highly sensitive to small changes in discount and inflation rates and, as a result, the financial statements include a sensitivity analysis on these inputs. | Note 20 |
| 3. Inventory valuation | The Group Balance Sheet shows a net valuation of £662.2m (2022: £633.0m). Both management and the external auditor provided the Committee with updates on the work they performed to validate the appropriateness of key estimates used in respect of inventory provisions. Particular consideration was given to the overall increase (year on year) and forecast sales for the year ahead.<br><br>The Committee concluded that the methodology for calculating the net realisable values of inventories, including management's estimates on provisions, was balanced and appropriate. | Page 193 |
| 4. Impairment of store assets | During the year the Group has recognised a net reversal of the impairment on its store related assets of £37.6m.<br><br>In recognising the impairment charge and reversal, management applied the requirements of IAS 36 to:<br><br>• Determine whether there have been any trigger events which require a reassessment of the store impairment provision; and<br>• Where a trigger event is present, prepare a forecast of the store cash flows to assess and measure the effect of any impairment/reversal of previous impairments.<br><br>The Audit Committee reviewed and discussed papers from management, including the key assumptions and sensitivities within the forecast model. It also reviewed the results of the external audit and concluded that the reversal was balanced and appropriate. | Page 194 and Note 3 |

# AUDIT COMMITTEE REPORT

| Area of focus | Details of Committee review | Reference to financial statements |
|---|---|---|
| 5. Acquisition of 26% interest in Reiss | The acquisition of a further 26% equity interest in Reiss resulted in a total shareholding of 51% and a cash outflow of £45.3m.<br><br>The accounting for this additional equity stake was reviewed and specific consideration was given to the reserved matters within the shareholders agreement to assess whether this additional equity provided NEXT with control of Reiss. Management concluded that it did not as NEXT did not obtain operational control. Instead it has joint control with the other major shareholder.<br><br>Having reviewed accounting papers from management and considered the views of the external auditor, the Committee concluded that the accounting treatment of the acquisition was appropriate. | Note 12 |
| 6. Sale and leaseback | The sale and leaseback on the new Elmsall 3 warehouse development represents a significant capital investment programme and required management to exercise judgement on whether the work met the recognition criteria for a "sale" as defined under IFRS 15, Revenue with contracts with customers.<br><br>In the prior year a gain of £7m was recognised on this transaction. This gain represented a proportion of the total gain expected on the sale and leaseback transaction.<br><br>As expected the remaining performance obligations relating to the sale were completed in the year and the residual gain of £10m was recognised in 2022/23. As a result the total gain under the sale and leaseback, recognised across the two years was £17.8m.<br><br>Based on the explanations and analysis provided by management, and the review by the external auditor, the Committee concluded that the recognition of the gain and related judgements on revenue recognition were balanced and appropriate. | Note 11 |
| 7. Acquisition of trade and assets from Joules | During the year the Group partnered with Tom Joule to acquire, out of administration, the majority of the assets of Joules via a newly formed company. The cash consideration paid by NEXT was £28m.<br><br>The accounting for the acquisition, including a provisional assessment of the fair value of the assets and liabilities acquired, has been performed by management. This process required management judgement in assessing the fair value of the assets and liabilities acquired.<br><br>Having reviewed accounting papers from management, and considered the views of the external auditor, the Committee concluded that the accounting treatment of the acquisition was appropriate. | Note 32 |

## Going concern and viability statement

The Committee reviewed the appropriateness of preparing the accounts on a going concern basis and the viability assessment for the business. To inform its assessment of these, the Committee:

- Received a presentation from management which set out the Group's financial position and performance, its three year cash projections and the Group's available borrowing facilities and covenants, including the repayment profile of its existing debt structure.
- Reviewed the process behind the preparation of the cash projections, assessing the completeness of the inputs and appropriateness of key assumptions made by management.
- Reviewed the stress tests and reverse stress test prepared by management. The stress tests included the possible cash impact of a "black swan" event which forced the temporary closure of all the warehouses and retail stores.
- Took into consideration recent updates they had received on the Group's principal and emerging risks.
- Noted that while net debt (excluding leases) had increased during the year, that actions taken in the preceding three years had significantly strengthened the liquidity of the Group (net debt excluding leases reduced from £1,112m in January 2020 to £797.3m at January 2023). Furthermore the Group continued to have access to significant cash levers which it could utilise if required to support the viability of the business.

Further details of the scenario testing, including the cash levers available to the business, are provided in the Viability Statement on page 84.

Based on these procedures the Committee approved the disclosures in relation to both the going concern and viability assessment and recommended to the Board the preparation of the financial statements on a going concern basis.

## Fair, balanced and understandable

Each year the Committee advises the Board on whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess NEXT's position, performance, business model and strategy. In reaching its conclusion, the Committee considers the Annual Report in line with the steps set out in the diagram below.

There are two particular areas of the Annual Report which changed this year. Detailed consideration was given to these changes by the Committee:

- The Group's segmental reporting was amended so that the profit from the Lipsy segment is now presented within the NEXT Online and Finance business segments. In addition, a new segment has been added for the Total Platform business which continues to grow and is therefore now presented as a segment in its own right. In order to ensure comparability of segmental profits, the prior periods have been restated. This change had no impact on the overall Group profit. Further details, including a reconciliation between the previous and revised segmental reporting, is set out on page 195.
- The Group has presented its KPIs for each of the years 2023, 2022 and 2020. Usually only the KPIs for the prior year would have been presented. However, the KPIs for 2020 have also been included as this was the last year in which the results were not impacted by the disruption caused by COVID. They therefore provide a useful comparative in which to assess the Group's performance in 2023.

| Step 1 | Step 2 | Step 3 | Step 4 | Step 5 | Step 6 |
|---|---|---|---|---|---|
| Management accounts and KPIs are considered at Board meetings to ensure that the business performance is appropriately assessed, reported and understood. | The reporting is led by a small team of senior management which coordinates the input into the Annual Report. Senior management reviews the Report as a whole to ensure that the information presented is accurate and the narrative is consistent with the fact pattern. | The Committee reviews the Annual Report during the drafting process and receives regular updates on progress. By facilitating input at an early stage, there is adequate time for review and amendments. | The Internal Audit function undertakes a thorough review process, verifying information within the report. | The Committee receives a report from management on the steps it has taken to ensure that the report is fair, balanced and understandable. The Committee discusses this with management, and challenges any significant judgements or estimates made, as well as the use of any APMs. | The Committee considers the views of the external auditor. |

# AUDIT COMMITTEE REPORT

## Risk management, internal control and internal audit

### Risk management

While the Board retains ultimate responsibility for risk management, the Committee reviews the overall effectiveness of risk management within the business on a regular basis and at least annually. At each meeting during the year the Committee received presentations from management detailing risks and risk management in various areas of the business. More information about the Committee's risk oversight during the year can be found below.

Further details regarding NEXT's risk framework and approach to risk management, together with details of the principal risks and risk assessment can be found on pages 74 to 82.

### The Committee's risk management activities during the year

### IT systems, cyber security and data privacy

- The Committee received progress reports on IT control observations made by the external auditor during the 2022 audit.
- At every meeting the Committee received updates from the Director of Technology Infrastructure on a significant IT ransomware defence and recovery project.
- Management presented to the Committee on work being done to enhance information security processes and procedures.
- The Committee reviewed information security and data privacy (GDPR) key risk indicator and key controls dashboards and enhancement plans.
- Cyber security benchmarking results were presented to the Committee, as well as the results of a number of phishing simulation exercises and an externally facilitated crisis simulation which two of the executive directors participated in.

### Consumer credit

- During the year the Committee received regular briefings on the Finance business, including reporting on the financial outlook, work on new customer management scorecards and affordability assessments and updates on credit account fraud.
- The Committee received regular updates on payment and default rates, bad debt, and arrears and whether the macroeconomic uncertainty had been appropriately considered.
- The Committee has oversight of the credit business' FCA conduct risk dashboard and has the opportunity to challenge management as appropriate.

### Other risk activities

The Committee also:

- Reviewed the key current and emerging risks (including ESG risks), together with the associated controls and mitigating factors.
- Considered management's scoring of inherent and residual risks, and challenged assumptions and methodology to ensure these are appropriate and robust.
- Considered the output of work undertaken by management, including its work with an external advisor, to further improve the documentation around its financial controls matrix.
- Reviewed the 2023 risk governance schedule.
- Reported to the Board on its evaluation of the effectiveness of the Group's systems of internal control and risk management, informed by reports from Internal Audit and PwC.
- Appraised the controls and procedures in place to prevent and detect fraud, and received regular updates on steps taken to prevent fraud.
- Considered progress on the E3 warehouse expansion and reorganisation project.
- Received regular updates from senior management on the implementation of its new payroll system which went live during the year.
- Received updates on material legal matters.
- Received updates from the operations team on key projects such as Total Platform, including consideration of the associated risks.

### Internal audit

The Internal Audit function is an integral feature of the Group's control framework. The work undertaken by the team provides invaluable insight into the practices, processes, systems and controls of the business. As such, the internal audit plan is approved by the Committee annually, and the Head of Internal Audit provides a detailed update to the Committee at each meeting. This update provides insight into the results of audits, including proposed improvement plans where relevant.

The Committee has oversight of the Internal Audit function's resource, experience and expertise. The Committee as a whole and the Committee Chairman each meet with the Head of Internal Audit without management present on a regular basis to allow for open discussion.

During 2021/22, an externally facilitated quality assessment of the Internal Audit function was undertaken by Ernst & Young LLP. No significant issues were raised and the key recommendation to produce an assurance map had been addressed and approved by the Committee in the January 2023 meeting. The Committee received progress updates on improvements arising from the assessment from the Head of Internal Audit at each meeting during the year.

The Committee is satisfied that the Internal Audit function has continued to perform effectively during the year.

# External audit

The Audit Committee is responsible for recommending to the Board the appointment, re-appointment, remuneration and removal of the external auditor. A resolution to propose the re-appointment of PwC was approved by shareholders at the 2022 AGM. When considering whether to recommend the re-appointment of the external auditor, the Committee considers a range of factors, including the effectiveness of the external audit, the period since the last audit tender was conducted, and the ongoing independence and objectivity of the external auditor.

## Independence and objectivity

PwC conducted its first audit of NEXT's financial statements in 2018, following a competitive tender process. The Committee will conduct an audit services tender at least every ten years to ensure that the independence of the external auditor is safeguarded. It is currently expected that the next tender process will take place in 2026 for audit services to begin in the year ending January 2028. When considering the appropriate time to conduct an audit tender, the Committee takes into account the benefit of an incumbent firm with deep knowledge of the Group's operations enabling an efficient and high quality audit, the independence and objectivity of the appointed auditor and audit partner and the results of the assessment of audit effectiveness. The Committee currently believes that it is in the best interests of the shareholders of NEXT to conduct the competitive tender process in 2026.

NEXT confirms that it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 throughout the financial year ended 28 January 2023.

Mark Skedgel was appointed as the new Lead Audit Partner for the 2022/23 audit and will serve a maximum term of five annual audit cycles.

PwC has reported to the Committee that, in its professional judgement, it is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

The Audit Committee has assessed the independence of the auditor by considering, amongst other things, the length of tenure of the audit firm and the audit partner, the value of non-audit fees provided by the external auditor, the relationship with the auditor as a whole, and management responses to the independence questions in the questionnaire conducted at the end of the audit process. It also considers the external auditors' own assessment of its independence. The Committee is satisfied that PwC meets the required standard of independence to safeguard the objectivity and integrity of the audit.

## Non-audit work carried out by the external auditor

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

- The Committee's approval is required in advance of any non-audit services to be provided by the external auditor.
- In any one year the aggregate non-audit fees will not exceed £150,000.
- Over a rolling three year period, non-audit fees are limited to 50% of the average audit fee paid in the previous three years.
- Only permitted non-audit services may be provided by the auditor.

The policy was last reviewed in March 2020 and deemed to remain appropriate. The Committee reviews PwC's audit and non-audit fees twice a year. These procedures also ensure that the regulatory cap on permitted non-audit services of 70% of the average Group audit fee paid on a rolling three year basis is not exceeded.

Proposed assignments of non-audit services with anticipated fees in excess of £50,000 are generally subject to competitive tender and decisions on the award of work are made on the basis of competence and cost-effectiveness. A tender process may not be undertaken where existing knowledge of the Group enables the auditor to provide the relevant services more cost-effectively than other parties. The Group's external auditor is prohibited from providing any services that would conflict with their statutory responsibilities or which would otherwise compromise their objectivity or independence.

During the year, PwC's audit fee amounted to £1.3m and its non-audit fees were £0.1m in total. In line with the above policy, appropriate advance approval was obtained from the Committee. Non-audit fees related to services to provide limited assurance over parts of our corporate responsibility reporting from PwC as they have existing knowledge of the Company and were able to provide the services in a cost effective manner. Further details are provided in Note 3 to the financial statements.

# AUDIT COMMITTEE REPORT

## Effectiveness

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

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

**1**
Reviewing audit plans early in the planning stages and discussing audit planning, audit quality, fees, accounting policies, audit findings and internal control with PwC.

**2**
Reviewing the findings from the FRC's annual audit inspection and the actions PwC was taking as a consequence of the inspection, particularly in relation to the audit of retail companies.

**3**
Reviewing PwC's report on its own internal quality procedures.

**4**
Attendance by the Committee Chairman at the audit close meeting (see below).

**5**
Considering the manner in which the audit was conducted and the audit areas in which most time was spent.

**6**
Reviewing the results of a detailed survey completed by NEXT management on their experience with the external auditor in respect of areas such as audit strategy, professional scepticism, technical strength, communication and planning.

**7**
Considering the areas in which PwC had challenged management's assumptions in key areas of judgement and the number and nature of the accounting and control observations raised by the auditor.

The findings of the FRC's Audit Quality Review of the audit of NEXT's 2021/22 Annual Report and Accounts provided further comfort to the Committee of the quality and effectiveness of PwC's audit (see page 126 for further detail).

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

- The issues that arose during the course of the audit and their resolution.
- The level of errors identified during the audit.
- The interaction between management and the auditor.
- The views of the external auditors' technical specialists and NEXT's subject area experts.

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

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

Having reviewed the auditors' independence and the effectiveness of its audit the Committee is satisfied that a resolution to re-appoint PwC be proposed at the 2023 AGM which the Board has accepted and endorsed.

## Other matters

### ESG

ESG is a standing item on the Audit Committee's agenda and during the year the Committee:

- Reviewed the proposed TCFD and SASB disclosures.
- Received updates on new regulatory developments as well as significant environmental initiatives within the business.
- Had presentations from the Code of Practice team, which works with NEXT's suppliers worldwide to uphold and improve labour standards in our supply chain.
- Received updates at every meeting from the Company Secretary on ESG governance matters.

### Whistleblowing

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

During the year, the Committee received updates at every meeting of reported issues, investigation details and follow up actions. The Committee also received updates in relation to anti-bribery and modern slavery training and awareness programmes.

# REMUNERATION REPORT

**Contents**



## Remuneration compliance

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

# Part 1: Annual Statement

As Chairman of the Remuneration Committee and on behalf of the Board, I am pleased to present our report on directors' remuneration for 2022/23.

## Pay and performance outcome for 2022/23

### Total remuneration

Pay arrangements at NEXT are simple, have been broadly consistent over many years and – in part as a consequence of this consistency – are well understood by the executive team, the wider workforce and shareholders. Although the Remuneration Policy is explicitly for executive directors, the principles which underlie it are used more widely in the business, at the operational director level and below.

Pay arrangements are also moderate – overall remuneration levels for executive directors are some way below the FTSE 100 median. They are also objective: variable pay is a result only of clear and objective financial performance measures, without any subjective or personal component. Consequently, these arrangements serve shareholders well; there is a long track record of NEXT's variable pay paying out when performance is good, and not paying out when performance is weaker.

As outlined in our Strategic Report, NEXT performed well during the year in the face of continued macroeconomic and geopolitical uncertainty and the executive directors helped to deliver NEXT profit before tax of £870m (up +5.7% versus 2021/22 and +16.3% against 2019/20) and post tax EPS of 573.4p (+8.0% versus 2021/22 and +21.4% versus 2019/20).

### Annual bonus

Annual bonus is calculated with reference to pre-tax EPS, as described on page 151. In accordance with the bonus formula, 54% of bonus opportunity was earned, resulting in a bonus of 81% of salary for Lord Wolfson and 54% of salary for the other executive directors. Maximum bonus payments were earned for 2021/22. The out-turn reflects the formulaic result without the exercise of any discretion.

### Long Term Incentive Plan (LTIP)

LTIP awards are granted twice a year, each grant being at 112.5% of base salary for executive directors. Two LTIP awards reached the end of their three year performance period during the year. Of these, the first vested at 62% as NEXT's total shareholder return (TSR) ranked 7th out of 20 companies in the comparator group and the second vested at 30% as NEXT's TSR ranked 10th in the comparator group of 21 companies. The out-turn reflects the formulaic result without the exercise of any discretion. These grants were made in September 2019 and March 2020. The Committee noted that some investor guidelines encourage further disclosures of grants made in the immediate aftermath of the onset of COVID. As the long-standing approach at NEXT has been to determine the number of shares awarded by reference to a daily average of mid-market closing prices on trading days during the three month period prior to the start of the performance period, the Committee considers that its approach inherently adjusts for abnormal share price movements such as caused by COVID.

# REMUNERATION REPORT

## Key remuneration decisions

The Committee addressed the following matters during the year:

### Committee assessment of performance-related remuneration

The Committee is mindful of the need to ensure that executive pay is inextricably linked to performance. This scrutiny is particularly important when a company either performs below expectations or exceeds expectations. While mathematical outcomes give a strong indication of the appropriate remuneration, it is the Committee's role to assess this in the context of the wider environment in which the Company operates. In allowing the executives' performance-related pay to vest without adjustment, the Committee took into account the following:

- Our executive directors are high performing, with an excellent track record in delivering strong and resilient Company performance and growth, as evidenced by the results this year and a TSR of 136% over a ten year period.
- The strong performance of the business is a result of the significant work to continue to develop our product ranges and our technology which has been led by the executives and includes growing our LABEL business by 100% over the last three years and the development of our Total Platform business. This work has placed NEXT in a strong position to take advantage of the ongoing structural shift in spending from retail stores to online as well as investment and acquisition opportunities.
- That it was consistent with the approach to performance-related remuneration across the wider workforce – bonus was earned by employees across all key divisions of the Company.

The Committee believes therefore that the executive director remuneration earned this year is proportionate and aligned to business performance and, therefore, approved the formulaic outcomes without the exercise of any discretion.

### Remuneration Policy renewal

Our current Directors' Remuneration Policy will reach the end of its normal three year life at the 2023 AGM and accordingly a new policy will be submitted for shareholder approval at that meeting. During the year the Committee carried out a comprehensive review of the current Policy. The overall objective of the Committee in this regard was to ensure the Company has a pay policy that leads to appropriate levels of senior executive remuneration (both as to amount and structure); that such remuneration is directly linked to both short and long term performance and, finally, that pay is also aligned with the interests of shareholders. The Committee also considered the alignment of the proposed Policy with Principle P of the Code (that is, that pay structures support Company strategy and promote long-term sustainable success) as well as with Provision 40 of the Code. The review included consultation with NEXT's 20 largest shareholders (who hold just over 50% of our issued share capital) and leading proxy advisers.

The Committee was also conscious that NEXT's pay policies have remained consistent for a long period of time, over which they have served both shareholders and executives well; so, in the view of the Committee, there would need to be very good reasons to change such a policy.

The executive remuneration framework appropriately addresses the following factors:

- Clarity – NEXT's incentive pay arrangements are based entirely on objective financial performance targets. This provides clarity to all stakeholders on the relationship between pay and performance.
- Simplicity – Remuneration arrangements for our executives are simple and the principles which underpin them are applied at management levels below the Board and are well understood by both participants and shareholders. Careful consideration is given to ensuring there is an appropriate balance in the remuneration structure between annual and long term rewards, as well as between cash and share-based payments.
- Risk – The Committee considers that the incentive arrangements do not encourage inappropriate risk-taking. Malus and clawback provisions are in the service contracts of all executive directors and apply to annual bonus and LTIP awards, so the Committee has discretion to adjust formulaic outcomes to ensure that they are appropriate.
- Predictability and proportionality – Our Policy provides for potential total remuneration below the median levels for companies of our size and has a strong history of delivering value when performance merits this and of nil payouts when performance has been weaker. Variable pay is linked to measures which are aligned with the Company's long term strategy and objectives.
- Alignment to culture – The remuneration performance targets set by the Committee are designed to drive the right behaviours across the business. The arrangements encourage our executives to focus on making the right decisions for the creation of long term shareholder value.

In light of this and after taking into account workforce remuneration and related policies, the Committee proposes no changes from our current Directors' Remuneration Policy, which we believe has served our shareholders well over many years.

### Rationale for proposal not to change the existing Remuneration Policy

The key points of our rationale to keep the Remuneration Policy unchanged are set out below.

#### Annual Bonus

Bonus payout at NEXT is entirely a function of pre-tax EPS performance, adjusted for special dividends (paid in lieu of share buybacks) excluding exceptional gains. The Chief Executive's maximum bonus opportunity is 150% of base salary with any payout above 100% paid in shares, deferred for two years. The other executive directors have a maximum bonus opportunity of 100% of base salary, all in cash. These bonus arrangements are very modest compared with FTSE norms. More typical bonus arrangements for FTSE 100 companies have a maximum payout of 200% for the Chief Executive and of 160% – 170% for executive directors. The Committee discussed increasing these bonus levels to ones more in line with the market but considers, on balance, that the current levels are aligned with the cost-conscious, performance-oriented culture of NEXT and to that end serve shareholders well.

The Committee also discussed increasing the proportion of the bonus which is deferred and the possible introduction of an ESG component to the bonus calculation. On the first of these two topics, NEXT is compliant with the Investment Association's guidelines: "Deferring a portion of the entire bonus into shares is expected for bonus opportunity of greater than 100% of salary". This, together with the Committee's preference to keep bonus levels at their current moderate levels, led the Committee to recommend the introduction of no further deferral element to the bonus scheme believing that the current arrangements benefit shareholders compared with a significant increase in bonus levels with a deferred element to align with market norms more closely.

On ESG, the Committee is very conscious of the focus that this topic receives in the investment community, and of the importance that is placed on it in wider society. And it is equally clear to the Committee that the Company focuses a great deal of attention on this area – for instance, on the working conditions of the factories in which NEXT's garments are manufactured. Pages 85 to 106 of this Annual Report, sets out in considerable detail the large number of activities that NEXT pursues in this area. These activities are, in the view of the Committee, well thought-through, wide-ranging, and interwoven with how NEXT runs its business day-to-day. In this context, it seemed to the Committee unnecessary to introduce an ESG metric into bonus arrangements in an attempt to motivate activity and behaviour that is already well advanced and widespread. It also seemed to the Committee that picking one or two particular metrics on which to judge and reward management, in an area that is wide-ranging and touches on many different aspects of the business, would be arbitrary and subjective. In the context of pay arrangements that have as one of their principal merits the widespread use of clear and objective financial performance measures, the Committee did not see this as a sensible step forward. So, on balance, the Committee's proposal is not to include any ESG metrics in pay arrangements explicitly, when many of the behaviours that are the focus of such metrics are already well embedded and implicit at the Company. It should be noted that, while its use should be rare, the Committee reserves discretion to reduce bonus and LTIP payments if material ESG failures arose. Based on experience elsewhere, where ESG related measures and personal objectives tend to pay-out at a higher level than financial measures, the effect of this decision is likely to reduce our executive directors' pay levels.

### LTIP

The LTIP maximum grant was increased in the last Policy renewal from 200% of salary to 225% of salary. Grants are awarded twice a year (so at 112.5% every six months), at a price calculated as the average three-month price in the run up to the start of the performance period. Vesting is calculated as a function of NEXT's TSR relative to that of a basket of approximately 20 LSE-quoted retailers.

Again, the grants are subject to a general underpin permitting the Committee to reduce vesting if the formulaic outcome is not considered appropriate.

### Shareholding guidelines

NEXT introduced shareholding guidelines post-cessation of employment into the Policy in 2020, in part as a consequence of consultation with shareholders. The requirement is for serving executive directors to hold 225% of salary in shares for one year post cessation. These guidelines will be enforced through the retention in a suitable holding account of all shares that vest from the 2020 LTIP grants onwards, until the threshold has been met. As we pointed out last time, operational cycles in fashion retailing are short, and it does not seem appropriate to ask executive directors to tie material amounts of wealth to other people's decisions on range, style etc. Nonetheless, given the sensitivity of shareholders to this issue, we agreed in the last Policy review to introduce a one year post-cessation guideline. It does not seem appropriate to now ask executive directors to have to retain a NEXT shareholding for more than one year after leaving, particularly noting that overall variable pay at NEXT is low compared to market norms and one element of executive directors' willingness to accept this lower quantum is that they should have recourse to their NEXT shares as a source of income after a more limited period.

### Pensions

The Committee understands that market guidance with regards to pension arrangements is that the pensions of executive directors should not be more generous than those of the wider workforce – a reaction to, and against, the practice in many companies of pension arrangements for senior executives being enhanced on promotion to the Board. This has not been the case here: NEXT for many years has not increased pension benefits for newly appointed Board directors. In other words, the practice at which these elements of pay guidance is targeted is not one that was followed at NEXT.

Different executive directors do have different contribution levels both to one another and to the current workforce – but at NEXT this is a function of the interplay of (a) all executive directors are very long serving and (b) there are differences in director tenure (from the shortest serving executive director at 26 years and the longest serving executive director at 37 years) and (c) NEXT pension arrangements have changed over time.

Pensions was a key area of discussion with shareholders, and change to our Policy, in the last Policy review, specifically changes to the pension arrangements of Lord Wolfson, the Chief Executive.

As a reminder, Lord Wolfson joined the NEXT Defined Benefit pension scheme shortly after joining the Company in 1991. In 2012 he agreed to a reduction in his DB pension entitlements when, for the purposes of its calculation, the final salary element was frozen at his salary in 2012 (so his DB accrual is limited to a salary of £710k being 82% of his 2022/23 salary), rather than what his final salary will actually be. In exchange for this, Lord Wolfson receives a 15% salary supplement.

Lord Wolfson then accepted, in the last Policy review, a further reduction of his DB entitlements when he agreed to a cap on the service accrual element (the salary component already frozen), which continues to accrue with his continued service, at 9% of salary. Consequently, for the purposes of the single figure table, his pension entitlement will never be greater than 24% of his base salary.

# REMUNERATION REPORT

At the time of the last Policy review, we noted that "if external expectations and/or market practice develop further in the future, we will not ask Lord Wolfson to take any further reduction in his terms."

NEXT's other executive directors receive pension contributions and/or salary supplements of 15% (Jane Shields) and of 5% (Richard Papp and Amanda James). None of these rates are 'top hat' arrangements for executives and align with the wider workforce if looked at from the perspective of colleagues with an equivalent length of service. However, the prevailing rate of employer pension contribution for new joiners to NEXT is 3% of pensionable salary, again regardless of seniority.

Acknowledging the sensitivity of this issue, we committed in 2017 that "Any newly appointed executive directors, whether internal or external appointments, will be invited to join a NEXT Defined Contribution pension arrangement at the prevailing rate for staff across NEXT at the time." However, asking existing executive directors to reduce their pension entitlements would disadvantage our directors compared to other senior executives of similar tenure who do not serve on the Board, and would also penalise long service – all this in the context of pay arrangements overall that are modest. We would much rather keep pension arrangements as they are than have to consider offsetting any reduction in pensions with material changes to bonus arrangements – which in turn would both increase overall costs for shareholders and have a cascading impact on the wider workforce.

### Annual base salary review for 2023/24

The Committee reviewed and set the remuneration for the Chairman, executive directors and senior management. Whilst the wider workforce's base salary increase was on average 8.7%, the executive directors received a pay increase of 5%.

In April 2023, Jeremy Stakol will be promoted to the Board as Group Investments, Acquisitions and Third Party Brands Director. The Committee's typical approach to salary progression for those executive directors who are appointed to the Board from an internal senior managerial position is to award salary increases which are timed to reflect performance and contribution at Board level, rather than automatically applied in full immediately on promotion. Salary progression is therefore usually phased over a period of approximately 1 to 4 years after promotion to the Board, subject to proven performance and development during that period. This prudent approach is in the interests of shareholders (saving money on salary as well as bonus and LTIP grants which are correspondingly less) and is consistent with both the approach taken with other internal promotions to the Board and with the approved Remuneration Policy.

### EPS and performance measurement

Each year the Committee reviews the basis and performance measures used for the annual bonus and LTIP. The performance measure for the annual bonus continues to be based on pre-tax EPS. The principal reasons for using EPS are:

- It is consistent and transparent to participants and shareholders.
- The primary financial objective of the Group is to deliver long term, sustainable returns to shareholders through a combination of growth in EPS and payment of cash dividends.
- The use of EPS is complemented by the application of relative TSR for the LTIP.

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

### Malus and clawback

The triggers for malus and clawback have sufficient scope to capture circumstances in which the Committee may wish to exercise these rights, including discretion to reduce variable pay at the point of determination which is in the executive directors' service agreements (as set out on page 144). The Committee considers these provisions at the year end as part of its normal review and concluded that it was not appropriate to exercise such provisions.

### Other activity during 2022/23

Further information about the work of the Committee is on page 161.

## Wider employee considerations and employee engagement

The Committee reviews remuneration arrangements across the Group and considers pay and employment conditions elsewhere in the Group to ensure that differences for executive directors are justified. This includes performance-related pay which is designed to attract and retain high quality employees as well as ensure that all employees have the potential to benefit from the success of NEXT. The Committee is responsible for approving the remuneration of the Group's senior management. It is also responsible for determining the targets for performance-related pay schemes, approving any award of the Company's shares under employee share option or incentive schemes, and overseeing any major changes in employee benefit structures.

### Rewarding our workforce

There are bonus structures throughout NEXT and employee share ownership is strongly encouraged. Market value options over NEXT shares are granted each year to approximately 2,000 middle management in our Head Office, call centres and warehouses, as well as senior store staff. Participation in our Sharesave scheme is open to all our UK employees and we saw a record take up of our 2022 Sharesave offer.

Around 11,400 employees (circa 27% of our total UK and Eire employees) held options or awards in respect of 7.0 million shares in NEXT at the financial year end.

### Knowing our workforce

Our annual employee forum meetings for our Head Office, Warehousing & Distribution, Retail and Online areas were held in person during 2022. Lord Wolfson, Dame Dianne Thompson (non-executive director), our HR Director and a cross-section of workforce representatives from the relevant business divisions with operational director sponsors attended the meetings. NEXT Sourcing had a representative attend an annual employee forum meeting and Lipsy company works councils held meetings during the year.

For further details regarding the feedback to the Board on employee views, please see page 107.

Along with the employee forum feedback, earlier this year the Committee reviewed and discussed a range of 'dashboard' information on important employee matters such as pay and reward, bonuses, benefits, diversity, equality of pay, internal promotions, culture and behaviours (including data on staff turnover by business division, absences, redundancies, disciplinaries and grievances), and learning and development. The remuneration framework works best when decisions are made in the context of the workforce as a whole rather than in isolation, and so the Committee considered the output of the workforce dashboard to ensure the executive directors' pay policy is aligned to the Company's strategy and, where relevant, to performance-related pay for managers below Board level. Following the dashboard review and at the conclusion of the Committee's Remuneration Policy review, I circulated a letter to all our employees setting out our approach and inviting them to email me with any queries or comments they had via a dedicated email address.

## Shareholder engagement

The Committee consulted with our largest 20 shareholders (who hold over 50% of our shares in issue) and their representative bodies in 2022 regarding our proposed Remuneration Policy. This consultation commenced with a letter explaining our proposal to keep the Policy unchanged. This was followed up with individual meetings to further explain the rationale behind the proposals and obtain feedback and understand the views of our investors. We were pleased by the level of engagement and overall feedback was positive.

For further details regarding the feedback to the Board on shareholder views, please see page 110.

## 2023 AGM

The Committee has continued to be mindful of the requirements of the Code when determining the Remuneration Policy and practices. It considers that the simplicity and transparency of our remuneration arrangements and their consistent application have contributed positively to NEXT's management team delivering strong and resilient performance, despite the continued externally challenging situation. The Remuneration Policy structure continues to provide a strong and transparent link between pay and performance and has operated as intended. We hope that this report provides clear insight into the Committee's decisions and look forward to receiving your support at the 2023 AGM for our proposed Remuneration Policy and the 2022/23 Directors' Annual Remuneration Report.

Tom Hall

**Tom Hall**
Chairman of the Remuneration Committee

29 March 2023

# Part 2: Proposed Directors' Remuneration Policy for the period 2023 to 2026

The proposed Remuneration Policy is set out in this section. As explained on pages 134 to 136, no changes are proposed to the Policy from the current Remuneration Policy which expires at the 2023 AGM. At the AGM to be held on 18 May 2023 a resolution to adopt the proposed Remuneration Policy will be put to shareholders for approval. The Policy is set to apply, subject to shareholders' approval, for three years from the 2023 AGM.

The table below summarises the Company's policies with regard to each of the elements of remuneration for existing directors and the approach to payments on external recruitment and termination.

## Base salary

### Purpose and link to strategy

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

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

### Operation

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

### Maximum opportunity

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

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

Under the reporting regulations, the Company is required to specify a maximum potential value for each component of pay. Accordingly, for the period of this Policy, no base salary paid to an executive director in any year will exceed £850,000 subject to the amount of the maximum base salary that may be paid to an executive director in any year increasing in line with the growth in RPI from the date of approval of that limit in accordance with the Remuneration Policy approved in 2017.

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

No change.

## Annual bonus

### Purpose and link to strategy

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

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

**To provide a retention element in the case of the Chief Executive as any annual bonus in excess of 100% of base salary is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period.**

### Operation

Performance measures and related performance targets are set at the commencement of each financial year by the Committee. Company policy is to set such measures by reference to financial measures (such as pre-tax EPS) but the Committee retains flexibility to use different performance measures during the period of this Policy if it considers it appropriate to do so, although at least 75% of any bonus will continue to be subject to financial measures.

At the threshold level of performance, no more than 20% of the maximum bonus may be earned (the Committee will determine the appropriate percentage each year and recent awards have been set at a lower level). Typically, a straight sliding scale of payments operates for performance between the minimum and maximum levels. There is no in-line target level although, for the purposes of the scenario charts on pages 147 to 148, 50% of maximum bonus has been assumed.

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

The Company has the flexibility within the rules of the Deferred Share Bonus Plan to grant nil cost options as an alternative to conditional share awards or exceptionally to settle in cash.

### Maximum opportunity

At present, Company policy is to provide a maximum bonus opportunity of 150% of salary for the Chief Executive and 100% of salary for other executive directors.

Although the Committee has no current plan to make any changes, for the period of this Policy the Committee reserves flexibility to:

- Increase maximum bonus levels for executive directors in any financial year to 200% of salary. This flexibility would be used only in exceptional circumstances and where the Committee considered any such increase to be in the best interests of shareholders and after appropriate consultation with key shareholders.
- Lessen the current differentials in bonus maximums which exist between the Chief Executive and other executive directors.
- Introduce or extend an element of compulsory deferral of bonus outcomes if considered appropriate by the Committee.

### Performance measures and targets

Currently performance is assessed against pre-tax EPS targets set annually, which take account of factors including the Company's budgets and the wider background of the UK economy. Pre-tax EPS has been chosen as the basic metric to avoid executives benefiting from external factors such as reductions in the rate of corporation tax. The Committee reserves flexibility to apply discretion in the interests of fairness to shareholders and executives by making adjustments it considers appropriate.

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

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

### Key changes to last approved policy

No change.

# REMUNERATION REPORT

## Long Term Incentive Plan (LTIP)

### Purpose and link to strategy

**To incentivise management to deliver superior total shareholder returns (TSR) over three year performance periods relative to a selected group of retail companies, and align the interests of executives and shareholders.**

**Retention of key, high calibre employees over three year performance periods and encouraging long term shareholding, through post vesting holding requirement, and commitment to the Company.**

### Operation

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

The maximum number of shares that may be awarded to each director is a percentage of each director's base salary at the date of each grant, divided by NEXT's average share price over the three months prior to the start of the performance period.

LTIP awards are made twice a year to reduce the volatility inherent in any TSR performance measure and to enhance the portfolio effect for participants of more frequent, but smaller, grants.

The Company has the flexibility within the rules of the LTIP to grant nil cost options as an alternative to conditional share awards and to settle vested LTIP awards in cash.

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

### Maximum opportunity

The maximum possible aggregate value of awards granted to all executive directors will be 225% of annual salary (i.e. typically 112.5% every six months) and up to 300% in exceptional circumstances.

The Committee reserves the right to vary these levels within the overall annual limits described above. In addition, awards granted to executive directors which vest must be taken in shares and the net shares (after payment of tax and NIC) must be held for a minimum period of two further years. The Committee reserves the right to lengthen (but not reduce) the performance period and to further increase the holding period or to introduce a retention requirement.

### Performance measures and targets

Performance is measured over a period of three years. Currently performance is measured based on NEXT's TSR against a group (currently 19 other UK listed retail companies) which are, in the view of the Committee, broadly comparable with NEXT in size or nature of their business. Comparison against such a group is more likely to reflect the Company's relative performance against its peers, thereby resulting in awards vesting on an appropriate basis.

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

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

### Key changes to last approved policy

No change.

## Pension

### Purpose and link to strategy

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

### Operation

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

In addition to being a deferred member of the DB section of the Plan, Lord Wolfson is accruing service (subject to a cap, see opposite) in an unfunded, unapproved supplementary pension arrangement (SPA), described on page 154. His future pension is calculated by reference to his October 2012 salary, rather than his final earnings, and any future salary changes will have no effect.

Jane Shields and Richard Papp ceased to contribute to the Plan in 2011 and 2004 respectively. Their DB pensions are no longer linked to salary and will increase in line with statutory deferred revaluation only (i.e. in line with CPI).

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

Amanda James participates in a defined contribution pension scheme and the Company currently makes a contribution equal to 5% of her salary into her pension plan. Amanda James can opt to receive an equivalent cash supplement in lieu of this Company contribution. Richard Papp is a deferred member of the same defined contribution pension scheme and receives a 5% cash equivalent supplement. The arrangements for Amanda James and Richard Papp are consistent with the pension provision and alternatives available to employees who joined the DC scheme at a similar time. The 5% cash equivalent supplement is only available to members who have exceeded the Annual or Lifetime Allowance limits.

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

New employees of the Group can join the auto enrolment pension plan.

### Maximum opportunity

Under the DB section and the SPA, the maximum potential pension is only achieved on completion of at least 20 years of pensionable service at age 65, when two thirds of the executive director's annual pensionable salary at October 2012 (plus any element of pension which was accrued on bonus payments made prior to 2006, when bonus was removed from the definition of pensionable earnings) could become payable.

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

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

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

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

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

No change.

# REMUNERATION REPORT

## Other benefits

### Purpose and link to strategy

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

### Operation

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

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

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

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

### Maximum opportunity

During the Policy period, the value of benefits (other than relocation costs) paid to an executive director in any year will not exceed £150,000. In addition, the Committee reserves the right to pay up to £250,000 relocation costs in any year to an executive director if considered appropriate to secure the better performance by an executive director of their duties. Relocation benefits would normally only be available for up to 12 months and the Committee would make appropriate disclosures of any provided.

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

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

No change.

## Save As You Earn Scheme (Sharesave)

### Purpose and link to strategy

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

### Operation

Executive directors can participate in the Company's Sharesave scheme which is HMRC approved and open to all employees in the UK. Option grants are generally made annually, with the exercise price discounted by a maximum of 20% of the share price at the date an invitation is issued. Options are exercisable three or five years from the date of grant. Alternatively, participants may ask for their contributions to be returned.

### Maximum opportunity

Investment is currently limited to a maximum amount of £250 per month. The Committee reserves the right to increase the maximum amount in line with limits set by HMRC (currently £500 per month).

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

No change.

## Termination payments

### Purpose and link to strategy

**Consistent with market practice, to ensure NEXT can recruit and retain key executives, whilst protecting the Company from making payments for failure.**

### Operation

The Committee will consider the need for and quantum of any termination payments having regard to all the relevant facts and circumstances at that time.

Future service contracts will take into account relevant published guidance.

### Maximum opportunity

Each of the executive directors has a rolling service contract. Dates of appointment and notice periods are disclosed on page 147. The contract is terminable by the Company on giving one year's notice and by the individual on giving six months' notice. For directors appointed prior to the 2017 Remuneration Policy, the Company has reserved the right to make a payment in lieu of notice on termination of an executive director's contract equal to their base salary and contractual benefits (excluding performance-related pay). For directors appointed after that time, any payment in lieu of notice is limited to their base salary only.

For directors appointed prior to the date of approval of the 2017 Remuneration Policy, if notice of termination is given immediately following a change of control of the Company, the executive director may request immediate termination of his/her contract and payment of liquidated damages equal to the value of his/her base salary and contractual benefits. Liquidated damages provisions will not be present in any service contract for executive directors appointed after that date and any service contract since that time will include provision for any termination payments to be made on a phased basis.

In normal circumstances executive directors have no entitlement to compensation in respect of loss of performance bonuses and all share awards would lapse following resignation. However, under certain circumstances (e.g. "good leaver" or change in control), and solely at the Committee's discretion, annual bonus payments may be made and would ordinarily be calculated up to the date of termination only, based on performance. In addition, awards made under the LTIP would in those circumstances generally be time pro-rated and remain subject to the application of the performance conditions at the normal measurement date. The Committee also has a standard discretion to vary the application of time pro-rating in such cases. "Good leaver" treatments are not automatic.

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

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

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

### Performance measures and targets

Not applicable.

### Key changes to last approved policy

No change.

# REMUNERATION REPORT

## Recovery and withholding provisions

### Purpose and link to strategy
**To ensure the Company can recover any payments made or potentially due to executive directors under performance-related remuneration structures.**

### Operation
Recovery and withholding provisions are in the service contracts of all executive directors and will be enforced where appropriate to recover or withhold performance-related remuneration which has been overpaid due to: a material misstatement of the Company's accounts; errors made in the calculation of an award; a director's misconduct; insolvency of any group company; or circumstances that would lead to a sufficiently significant negative impact on the reputation and likely financial strength of the Company. These provisions allow for the recovery of sums paid and/or withholding of sums to be paid.

### Maximum opportunity
Not applicable.

### Performance measures and targets
Not applicable.

### Key changes to last approved policy
No change.

## Chairman and non-executive director fees

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

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

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

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

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

### Maximum opportunity
The total of fees paid to the Chairman and the non-executive directors in any year will not exceed the maximum level for such fees from time to time prescribed by the Company's Articles of Association (currently £1,000,000 per annum).

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

### Key changes to last approved policy
No change.

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

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

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

For external recruits, the Committee will also aim to structure and agree a package which is in line with the same policies for existing executive directors as set out above. However, the Committee reserves the right not to apply the caps contained within the Policy for fixed pay (i.e. base salary, pension and other benefits), either on joining or for any subsequent review within the life of this Policy, although the Committee would not envisage exceeding these caps in practice.

In terms of variable pay, the Committee may offer cash or share-based incentives when considered to be necessary to secure a candidate and in the best interests of the Company and its shareholders. It may be necessary to make such awards on more bespoke terms which differ from NEXT's existing annual and share-based pay structures. Depending on the timing of an appointment it may be necessary to use different performance criteria to other executive directors for any initial incentive awards. However, the Committee will not authorise the payment of more than it considers necessary and will abide by the caps for such elements within the general policy.

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

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

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

## Exercise of discretion

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

- The timing of awards and payments
- The size of awards, within the overall limits disclosed in the Policy table
- The determination of vesting
- The treatment of awards in the case of change of control or restructuring
- The treatment of leavers within the rules of the plan and the termination policy summary shown on page 143
- Adjustments needed in certain circumstances (for example, rights issue, corporate restructuring or special interim dividend).

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

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

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

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

# REMUNERATION REPORT

## Share ownership guidelines

The minimum shareholding is 225% of salary for all executive directors. An executive director has up to five years from date of appointment to acquire the minimum shareholding. Shares in which the executive director, their spouse/civil partner or minor children have a beneficial interest count towards the shareholding.

Post-cessation shareholding guidelines apply to all executive directors. Directors must hold a minimum of 225% of salary for one year post-cessation. The Committee will have the normal discretion to disapply this in exceptional circumstances. The post-cessation guidelines apply and will be enforced through the retention of any (after-tax) shares vesting in respect of 2020 LTIP grants onwards into an escrow account until an amount equal to 225% of salary is held.

## Legacy commitments

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

## Stating maximum amounts for each element of remuneration

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

## Consideration of shareholder views

During the year, the Committee consulted extensively with our largest shareholders and their representative bodies on our proposed changes to the Remuneration Policy (as detailed on pages 134 and 137). The specific shareholder views about remuneration are also communicated to the Committee on an ongoing basis through inclusion in Board reports of shareholder feedback and statements made by representative associations. The Committee remains committed to ongoing dialogue and shareholders and representative bodies are able to contact the Committee Chairman directly if they wish to do so.

## Service contracts

### Executive directors

The Company's policy on notice periods and in relation to termination payments is set out in the Policy table on page 143. Apart from their service contracts, no director has had any material interest in any contract with the Company or its subsidiaries.

The executive directors' service contracts do not contain fixed term periods.

## Non-executive directors

Letters of appointment for the Chairman and non-executive directors do not contain fixed term periods; however, they are appointed in the expectation that they will serve for a minimum of six years, subject to satisfactory performance and re-election at Annual General Meetings.

Dates of appointment and notice periods for directors are set out below:

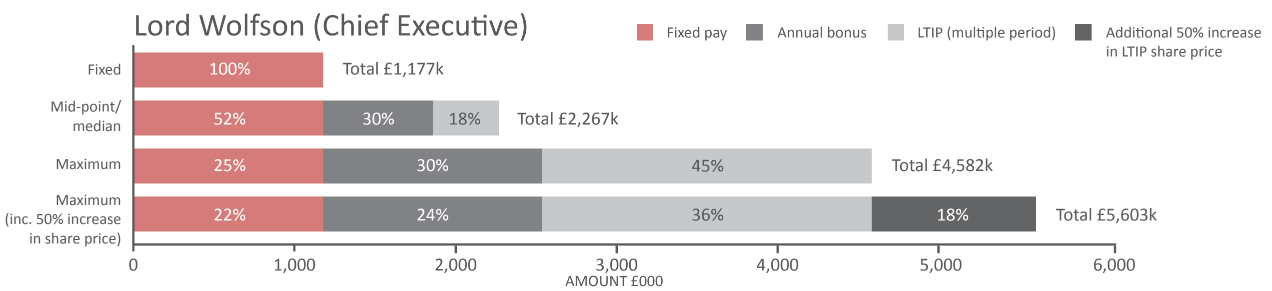
| | Date of appointment to Board | Notice period where given by the Company | Notice period where given by the director |
|---|---|---|---|
| **Chairman** | | | |
| Michael Roney | 14 February 2017* | 12 months | 6 months |
| **Executive directors** | | | |
| Lord Wolfson | 3 February 1997 | 12 months | 6 months |
| Amanda James | 1 April 2015 | 12 months | 6 months |
| Richard Papp | 14 May 2018 | 12 months | 6 months |
| Jane Shields | 1 July 2013 | 12 months | 6 months |
| Jeremy Stakol | 3 April 2023 | 12 months | 6 months |
| **Non-executive directors** | | | |
| Jonathan Bewes | 3 October 2016 | 1 month | 1 month |
| Soumen Das | 1 September 2021 | 1 month | 1 month |
| Tom Hall | 13 July 2020 | 1 month | 1 month |
| Tristia Harrison | 25 September 2018 | 1 month | 1 month |
| Dame Dianne Thompson | 1 January 2015 | 1 month | 1 month |

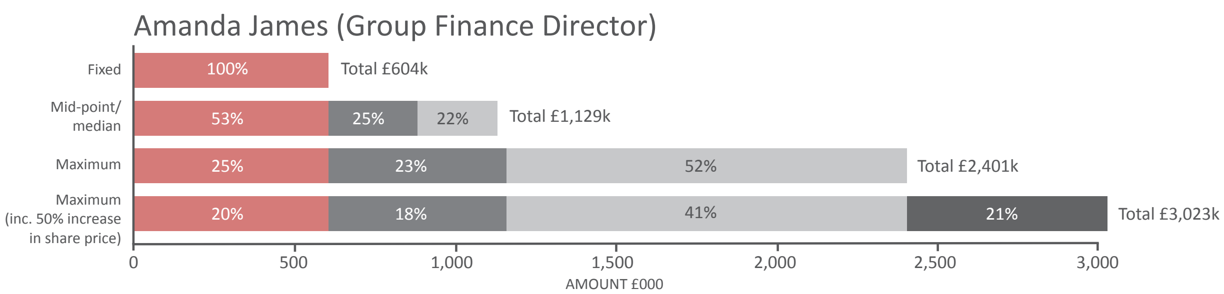
* Appointed Chairman 2 August 2017

# Total remuneration opportunity

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

The following charts indicate the level of remuneration that could be received by each executive director in accordance with the Directors' Remuneration Policy at different levels of performance. The overall level of executive director pay remains modest compared with that available at other equivalently sized FTSE 100 companies and the maximum remuneration indicated in the charts below reflects the Committee's conservative approach to executive pay.




Strategic Report
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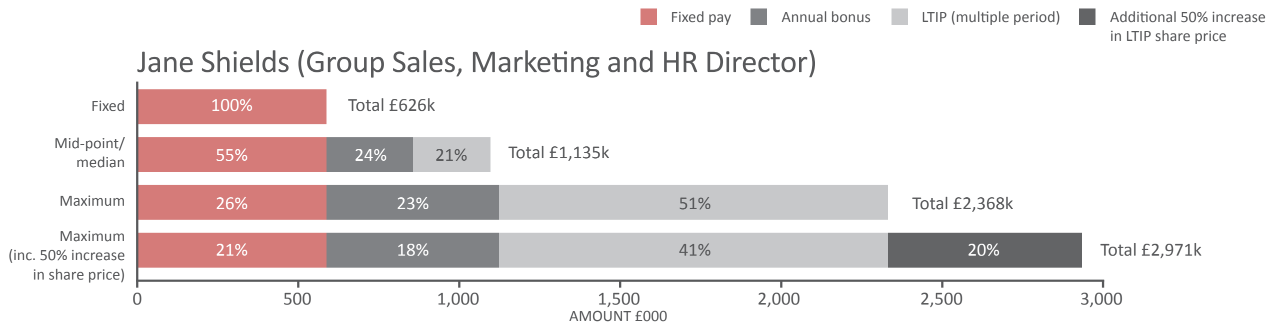
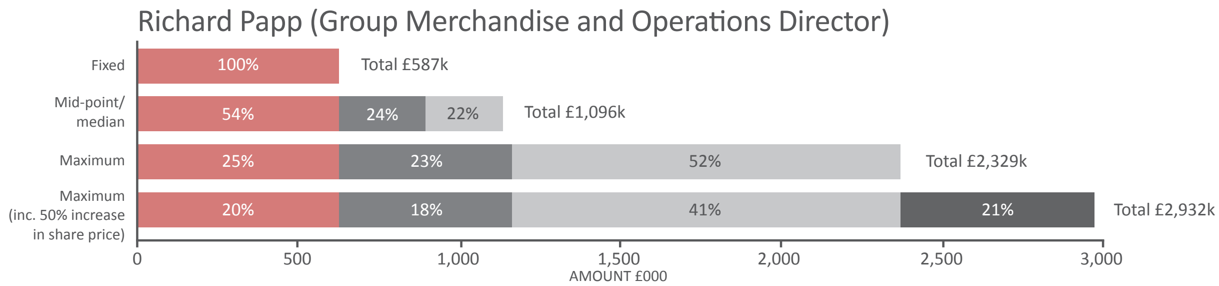
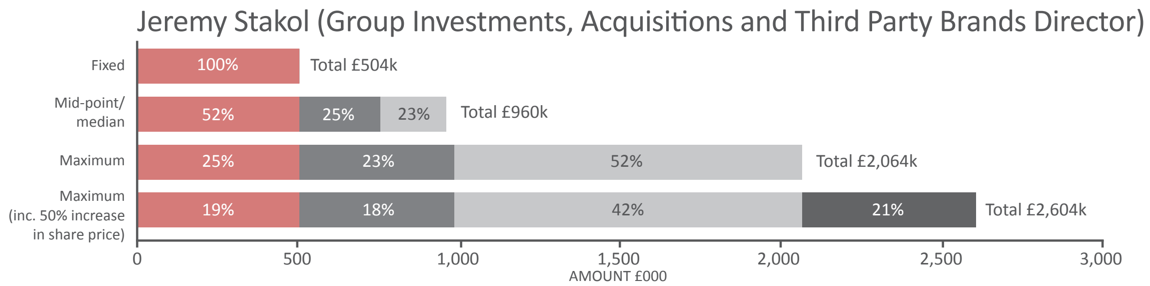
# REMUNERATION REPORT



| In the charts on the previous page, the following assumptions have been made[1]: | |
|---|---|
| Fixed/minimum | Base salaries and salary supplement values as at 2023/24, and benefits values as shown in 2022/23 single figure of remuneration. The pension value for Lord Wolfson has been capped at 24% of his salary (see page 154). |
| Mid-point/median | Includes the performance-related pay a director would receive in the scenario where:<br>• 50% of maximum annual bonus is earned.<br>• LTIP performance results in a median TSR ranking and therefore 20% of the maximum award would vest. |
| Maximum | Includes the performance-related pay a director would receive in the scenario where performance equalled or exceeded maximum targets:<br>• 100% of the annual bonus.<br>• LTIP performance results in an upper quintile TSR ranking and therefore 100% of the maximum award would vest. |
| Maximum inc. 50% growth in share price across relevant performance period | As for the maximum scenario above, plus an increase in the value of the LTIP of 50% across the relevant performance period to reflect possible share price appreciation. Consistent with the reporting regulations, this does not separately include the impact of dividend accrual. |

1. Jeremy Stakol will be appointed with effect from 3 April 2023. In the charts on the previous page the information is presented on a full year equivalent basis.

## NEXT employment conditions generally

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

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

These other employees are provided with a competitive package of benefits that includes the opportunity to participate in the Group's pension arrangements and staff discount on Group merchandise. In addition, the NEXT Management Share Option Plan provides for options over shares, exercisable between three and ten years following their grant, to be allocated to Group employees. This plan is primarily aimed at middle management and senior store staff. Options are set at the prevailing market price at the time of grant and are generally granted annually.

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

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

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

# REMUNERATION REPORT

# PART 3: ANNUAL REMUNERATION REPORT

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



## Annual Remuneration Report

This Annual Remuneration Report, together with the Chairman's Introduction on pages 133 to 137, will be put to shareholders for an advisory (non-binding) vote at the AGM to be held on 18 May 2023. Sections which have been subject to audit are noted accordingly.

## Implementation of Remuneration Policy

The Committee has implemented the Remuneration Policy in accordance with the Policy approved by shareholders at the AGM in May 2020. The table below sets out the way that the Policy was implemented in 2022/23 and any significant changes in the way it will be implemented in 2023/24.

| Element of remuneration | Policy implemented during 2022/23 and changes in 2023/24 |
|---|---|
| **Base salary** | Base salaries for the executives increased by 5% in February 2023, compared with base salary increases on average of 8.7% for the wider Company award. In April 2023, Jeremy Stakol will be promoted to the Board as Group Investments, Acquisitions and Third Party Brands Director (see page 124). The base salaries for the executive directors from February 2023 (and from April 2023 for Jeremy Stakol) are: |

| £000 | 2023/24 | 2022/23 |
|---|---|---|
| Lord Wolfson | **908** | 865 |
| Amanda James | **553** | 527 |
| Richard Papp | **536** | 510 |
| Jane Shields | **536** | 510 |
| Jeremy Stakol | **480** | – |

| Element of remuneration | Policy implemented during 2022/23 and changes in 2023/24 |
|---|---|
| **Annual bonus** | For the year to January 2023, performance targets were set based on requiring pre-tax EPS of at least 659.5p (+2.3% on 2021/22), adjusted for special dividends and excluding exceptional gains. At this threshold, a 12% of maximum bonus was payable. The anticipated EPS in the 2022/23 budget did not account for any potential share buybacks in the year (as disclosed in our January 2022 Trading Statement), so the Committee decided that the executive directors should not receive any benefit in their annual bonus from the EPS enhancement from share buybacks made from the budgeted free cash flow of £220m. A maximum bonus of 100% and 150% of salary for the executive directors and Chief Executive respectively was payable if pre-tax EPS growth was +11.1% (716.5p).<br><br>Underlying pre-tax EPS growth achieved in the year, adjusted down for the impact of £220m of share buybacks (reducing the level of bonus earned), was +6.5% versus 2021/22, being an EPS of 687.2p. In accordance with the bonus formula, a bonus of 54% of the maximum was earned which the Committee considered to be appropriate and approved without adjustment, for the reasons set out on page 134.<br><br>For the year to January 2024, no changes to the bonus structure will be made (save that the estimated benefit from share buybacks has been included in the 2023/24 budget). Bonus performance targets for the year ahead have been set but are not disclosed in advance for reasons of commercial sensitivity. The targets and performance will be disclosed in next year's Remuneration Report and, the Committee ensures that a mechanism exists so that executive directors are not incentivised to recommend share buybacks to the Board in preference to special dividends, or vice versa. This is achieved by making a notional adjustment to EPS growth for special dividends, on the basis that the cash distributed had instead been used to purchase shares at the prevailing share price on the day of the special dividend payment. |
| **LTIP** | No change. See Note 5 to the single total figure of remuneration table for details of LTIP vestings in the year. LTIP grants in 2023/24 will be made on the same basis as the 2022/23 grants, with any changes to the TSR comparator group considered immediately prior to each grant.<br><br>Consistent with market practice, the LTIP awards increase to reflect dividends paid over the period to vesting (assuming reinvestment at the prevailing share price). |
| **Recovery and withholding provisions** | No change. The Committee previously introduced recovery and withholding provisions in the service contracts of all executive directors to cover the bonus and LTIP, and a five year from grant holding period (comprising a three year vesting period and a two year holding period for the retention of any net of tax shares that vest) under the LTIP for executive directors. See page 144 for details of the malus and clawback provisions in the service contracts of the executive directors. |
| **Chairman and non-executive director fees** | The fees of the Chairman and non-executive directors were increased by 5% in February 2023. The Chairman, Michael Roney, will be paid an annual fee of £381,646 (2022/23: £363,472). The basic non-executive director fee for 2023/24 will increase to £73,500 (2022/23: £70,000), with a further £21,000 (2022/23: £20,000) paid to the Chairman of each of the Audit and Remuneration Committees respectively, and £12,600 (2022/23: £12,000) paid to the Senior Independent Director. |
| **Pension** | No change. The value of overall pension provision is consistent with the wider workforce for each director when compared with colleagues with an equivalent length of service. Consistent with the Policy approved by shareholders in 2020, additional caps on Lord Wolfson's potential benefits were added even though these do not apply to other colleagues with his length of service. |
| **Shareholding requirement** | No change. |
| **Post cessation shareholding requirement** | No change. |
| **Other benefits** | No change. |
| **Save As You Earn scheme (Sharesave)** | No change. |

## Single total figure of remuneration (audited information)

### Directors' remuneration

| £000 | Fixed remuneration | | | | | | | | | | Variable remuneration | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary/fees | | Benefits[1] | | Pension[2] | | Salary supplement[3] | | Total | | Annual bonus[4] | | LTIP[5] | | Sharesave | | Total | | Total remuneration | |
| | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 | 2022/23 | 2021/22 |
| **Chairman** | | | | | | | | | | | | | | | | | | | | |
| Michael Roney | **363** | 346 | – | – | – | – | – | – | **363** | 346 | – | – | – | – | – | – | – | – | **363** | 346 |
| **Executive directors** | | | | | | | | | | | | | | | | | | | | |
| Lord Wolfson | **865** | 824 | **51** | 52 | **78** | 74 | **130** | 124 | **1,124** | 1,074 | **701** | 1,236 | **682** | 1,838 | – | – | **1,383** | 3,074 | **2,507** | 4,148 |
| Amanda James | **527** | 502 | **23** | 22 | **2** | 2 | **24** | 23 | **576** | 549 | **285** | 502 | **415** | 1,052 | – | 1 | **700** | 1,555 | **1,276** | 2,104 |
| Richard Papp | **510** | 486 | **24** | 23 | – | – | **26** | 24 | **560** | 533 | **275** | 486 | **403** | 1,035 | – | 2 | **678** | 1,523 | **1,238** | 2,056 |
| Jane Shields | **510** | 486 | **10** | 9 | – | – | **77** | 73 | **597** | 568 | **275** | 486 | **403** | 1,035 | – | 1 | **678** | 1,522 | **1,275** | 2,090 |
| **Non-executive directors** | | | | | | | | | | | | | | | | | | | | |
| Jonathan Bewes | **102** | 80 | – | – | – | – | – | – | **102** | 80 | – | – | – | – | – | – | – | – | **102** | 80 |
| Soumen Das* | **70** | 25 | – | – | – | – | – | – | **70** | 25 | – | – | – | – | – | – | – | – | **70** | 25 |
| Tom Hall | **90** | 68 | – | – | – | – | – | – | **90** | 68 | – | – | – | – | – | – | – | – | **90** | 68 |
| Tristia Harrison | **70** | 59 | – | – | – | – | – | – | **70** | 59 | – | – | – | – | – | – | – | – | **70** | 59 |
| Dame Dianne Thompson | **70** | 59 | – | – | – | – | – | – | **70** | 59 | – | – | – | – | – | – | – | – | **70** | 59 |
| | **3,177** | 2,935 | **108** | 106 | **80** | 76 | **257** | 244 | **3,622** | 3,361 | **1,536** | 2,710 | **1,903** | 4,960 | – | 4 | **3,439** | 7,674 | **7,061** | 11,035 |

* Soumen Das was appointed to the Board as a non-executive director on 1 September 2021.

Total emoluments paid to directors (salary/fees, benefits, salary supplements and annual bonus) for the year to January 2023 were £5,078,000 (2022: £5,995,000).

## Note 1: Benefits

| | Car/chauffeur charges/cash allowance | | Fuel | | Medical insurance and NEXT clothing allowance | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2022/23 £000 | 2021/22 £000 | 2022/23 £000 | 2021/22 £000 | 2022/23 £000 | 2021/22 £000 | 2022/23 £000 | 2021/22 £000 |
| Lord Wolfson | **44** | 45 | **4** | 4 | **3** | 3 | **51** | 52 |
| Amanda James | **20** | 15 | **1** | 5 | **2** | 2 | **23** | 22 |
| Richard Papp | **21** | 20 | **–** | – | **3** | 3 | **24** | 23 |
| Jane Shields | **6** | 5 | **2** | 2 | **2** | 2 | **10** | 9 |

## Note 2: Pension

Lord Wolfson is accruing pensionable service under the defined benefit supplemental pension arrangement. See page 154 for details, including Lord Wolfson's voluntary cap of the service accrual under his defined benefit (DB) pension plan which was effective from February 2020.

DB pension values are calculated using the method required by remuneration regulations, i.e. the total pension accrued at January 2023 less the total pension accrued at the end of the previous year, adjusted for inflation and multiplied by a factor of 20, less the director's own contribution. It does not necessarily represent the economic value of the pension rights accrued and this benefit is not immediately available to the director. Consistent with other staff participating in the plans, Lord Wolfson's salary was frozen for DB pension purposes at October 2012 although he continues to accrue service related benefits.

The DB pension entitlement of Lord Wolfson accrued during the year, after the impact of the cap, is as follows:

| | Age at January 2023 | Years of pensionable service | Accrued annual pension £000 | Change in accrued annual pension £000 | Change in accrued annual pension net of inflation £000 |
|---|---|---|---|---|---|
| Lord Wolfson | 55 | 28 | 459 | 19 | 6 |

Directors' DB pension arrangements are subject to the same actuarial reduction as other employees on termination or early retirement.

Amanda James is a member of a NEXT defined contribution scheme. For one month of the year Amanda made a contribution equal to 5% of her salary into her pension plan which was matched by the Company (2021/22: just over one month of that year). For the remainder of the year, as Amanda had reached the annual pension allowance limit (i.e., the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that can build up in DB pension schemes each year, for UK income tax relief purposes), she opted to receive an equivalent cash supplement in lieu of this Company contribution. This is consistent with the Remuneration Policy and with the pension provision and alternatives available to other members of the same defined contribution scheme who have exceeded the Annual or Lifetime Allowance limits.

## Note 3: Salary supplement in lieu of pension

Supplements of 15% of base salary are paid to Lord Wolfson and Jane Shields in lieu of past changes to their pension arrangements. Jane Shields has received this supplement from 2011 and Lord Wolfson from 2012. Richard Papp is a deferred member of both the defined benefit scheme and a NEXT defined contribution pension scheme and receives a supplement of 5% of base salary. See Note 2 opposite for information regarding Amanda James.

## Note 4: Annual bonus

For the year to January 2023, performance targets were set based on requiring pre-tax EPS of at least 659.5p (+2.3% on 2021/22), adjusted for special dividends and excluding exceptional gains. At this threshold, a 12% of maximum bonus was payable. The anticipated EPS in the 2022/23 budget did not account for any potential share buybacks in the year (as disclosed in our January 2022 Trading Statement), so the Committee decided that the executive directors should not receive any benefit in their annual bonus from the EPS enhancement from share buybacks made from the budgeted free cash flow of £220m. A maximum bonus of 100% and 150% of salary for the executive directors and Chief Executive respectively was payable if pre-tax EPS growth was +11.1% (716.5p).

Underlying pre-tax EPS growth achieved in the year, adjusted down for the impact of £220m of share buybacks (reducing the level of bonus earned), was +6.5% versus 2021/22, being an EPS of 687.2p. In accordance with the bonus formula, a bonus of 54% of the maximum was earned which the Committee considered to be appropriate and approved without adjustment, for the reasons set out on page 134.

## Note 5: LTIP

Performance targets for the LTIP are set out on page 140.

For the three year period to July 2022, NEXT's TSR ranked 7th in the comparator group of 20 resulting in 62% of the grant made in the second half of 2019 vesting. This award vested on 3 October 2022, when the share price was £48.36. For the three year period to January 2023, NEXT's TSR ranked 10th in the comparator group of 21 resulting in 30% of the award granted in March 2020 vesting. The Committee concluded that the indicative formulaic levels of vesting were appropriate and allowed such vesting without adjustment. The executives are required to retain LTIP shares that vest, net of any tax, for a period of two years.

LTIP values included in the 2022/23 single figure table comprise the actual value of awards that have vested for the performance period ended July 2022 plus the estimated value of awards that will vest for the performance period ended January 2023 based on the average NEXT share price over the final three months of the financial year of £58.76. None of the reported figure is attributable to share price appreciation.

LTIP values included in the single figure table for the 2021/22 comparative figures have been updated to reflect the actual market values of the LTIP awards that vested on 28 March 2022 of £63.06.

# REMUNERATION REPORT

## Executive directors' external appointments

Lord Wolfson stepped down from the Board of Deliveroo as a non-executive director on 9 August 2022.

## Pension entitlements (audited information)

Lord Wolfson, Jane Shields and Richard Papp are deferred members of the defined benefit 2013 Plan, which has been approved by HMRC. Amanda James is an active member and Richard Papp is a deferred member of a NEXT defined contribution scheme. In addition, Lord Wolfson is accruing service in an unfunded, unapproved supplementary pension arrangement (see below).

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

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

With effect from February 2020, Lord Wolfson volunteered to cap the service accrual under his DB pension annually so that the single figure value attributed to the DB portion of his pension is no more than 9% of salary (giving a single figure of DB pension and salary supplement in aggregate of up to 24% of salary). The Committee is appreciative of Lord Wolfson's offer to cap his pension in this way, acknowledging that he has now twice taken a material reduction in the terms of his pension. The Committee considers that it would not be reasonable for him to take a third reduction.

After introduction of the cap on the service accrual under Lord Wolfson's DB pension, all the executive directors are on pension arrangements no more generous than those offered to the wider colleague population recruited at the same time as them so that the pension proposals align with the relevant all-employee populations.

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

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

Active members of the DB scheme contribute 3% or 5% of pensionable earnings as at October 2012, while the Company makes contributions at the rate of 38%. Certain members (including Lord Wolfson) whose accrued or projected pension fund value exceeds their personal lifetime allowance are provided with benefits through an unfunded, unapproved supplementary pension arrangement. Lord Wolfson contributes towards the additional cost of providing these benefits by a payment of 5% on pensionable earnings as at October 2012. Since April 2011, where existing members have reached either the annual or lifetime pension contributions limits, the Company has offered those members the choice of leaving the DB Plan and either joining the defined contribution scheme (with an enhanced Company contribution) or taking a salary supplement, in both cases equal to 10% or 15% of their salary (depending on their existing contributions and benefits).

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

# Directors' shareholding and share interests (audited information)

## Directors' interests

Directors' interests in shares (including those of their connected persons) at the beginning and end of the financial year were as follows:

| | Ordinary shares | | Deferred Bonus Shares[1] | | LTIP[2] | | Sharesave[3] | |
|---|---|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| Lord Wolfson[4] | **1,441,859** | 1,265,359 | **6,938** | – | **85,331** | 88,546 | **344** | 344 |
| Jonathan Bewes | **1,750** | 1,750 | **–** | – | **–** | – | **–** | – |
| Soumen Das | **1,289** | 1,289 | **–** | – | **–** | – | **–** | – |
| Tom Hall | **10,000** | nil | **–** | – | **–** | – | **–** | – |
| Tristia Harrison | **1,000** | 1,000 | **–** | – | **–** | – | **–** | – |
| Amanda James | **44,381** | 36,806 | **–** | – | **51,959** | 53,917 | **287** | 287 |
| Richard Papp | **24,732** | 17,389 | **–** | – | **50,369** | 52,266 | **139** | 139 |
| Michael Roney | **54,821** | 44,321 | **–** | – | **–** | – | **–** | – |
| Jane Shields | **53,552** | 46,209 | **–** | – | **50,369** | 52,266 | **323** | 323 |
| Dame Dianne Thompson | **nil** | nil | **–** | – | **–** | – | **–** | – |

1. Full details of the basis of allocation and terms of the deferred bonus are set out on page 157.
2. The LTIP amounts above are the maximum potential conditional share awards that may vest subject to performance conditions described on page 140.
3. Executive directors can participate in the Company's Sharesave scheme (see details on page 142) and the amounts above are the options which will become exercisable at maturity.
4. The connected persons of Lord Wolfson include The Charles Wolfson Charitable Trust who held 164,058 shares as at 28 January 2023 (2022: nil).

There have been no changes to the directors' interests in the shares of the Company from the end of the financial year to 28 March 2023.

## Share ownership guidelines

The minimum shareholding is 225% of salary for all executive directors. An executive director has up to five years from date of appointment to acquire the minimum shareholding. Shares in which the executive director, their spouse/civil partner or minor children have a beneficial interest count towards the shareholding.

As at the 2022/23 financial year end, the value of shareholdings of the executives, based on the average share price over the preceding three months, was as follows:

| | Date of appointment to Board | Shareholding % of base salary as at Feb 2023 | Shareholding guidelines achieved |
|---|---|---|---|
| Lord Wolfson | February 1997 | 8,268% | Yes |
| Amanda James | April 2015 | 472% | Yes |
| Richard Papp | May 2018 | 271% | Yes |
| Jane Shields | July 2013 | 587% | Yes |

Post-cessation shareholding guidelines also apply to all executive directors. Directors must hold a minimum of 225% of salary for one year post-cessation. The Committee will have the normal discretion to disapply this in exceptional circumstances. The post-cessation guidelines will apply and will be enforced through the retention of any (after-tax) shares vesting in respect of 2020 LTIP grants onwards into an escrow account until an amount equal to 225% of salary is held.

# REMUNERATION REPORT

The table below shows share awards held by directors and movements during the year. LTIPs are conditional share awards and Sharesaves are options. All awards are subject to performance conditions except for Sharesave options. LTIP awards granted to executive directors which vest must be taken in shares and the net shares (after payment of tax and NIC) must be held for a minimum period of two further years.

| | Date of award | Maximum receivable at start of financial year | Awarded during the year | Dividend accrual shares awarded in the year | Shares vested/ exercised in the year | Lapsed | Maximum receivable at end of financial year | Calculated price at award date[1] £ | Option/ award price £ | Market price on date of vesting/ exercise £ | Vesting date/ exercisable dates[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Lord Wolfson** | | | | | | | | | | | |
| LTIP | Mar 2019 | 16,727 | – | 867 | 14,249 | 3,345 | – | 48.11 | nil | 63.06 | Jan 2022 |
| | Sept 2019 | 14,314 | – | 577 | 9,452 | 5,439 | – | 56.22 | nil | 48.36 | Jul 2022[3] |
| | Mar 2020 | 11,955 | – | – | – | – | 11,955 | 68.49 | nil | – | Jan 2023[3] |
| | Sept 2020 | 20,757 | – | – | – | – | 20,757 | 49.31 | nil | – | Jul 2023 |
| | Apr 2021 | 13,178 | – | – | – | – | 13,178 | 70.32 | nil | – | Jan 2024 |
| | Sept 2021 | 11,615 | – | – | – | – | 11,615 | 79.78 | nil | – | Jul 2024 |
| | Mar 2022 | – | 12,245 | – | – | – | 12,245 | 79.46 | nil | – | Jan 2025 |
| | Sept 2022 | – | 15,581 | – | – | – | 15,581 | 62.45 | nil | – | Jul 2025 |
| | | **88,546** | | | | | **85,331** | | | | |
| Deferred bonus | Apr 2022 | – | 6,938[4] | – | – | – | 6,938 | 59.36 | nil | – | Apr 2024 |
| Sharesave | Oct 2018 | **344** | – | – | – | – | **344** | – | 43.48 | – | Dec 2023– Jun 2024 |
| **Amanda James** | | | | | | | | | | | |
| LTIP | Mar 2019 | 10,185 | – | 527 | 8,675 | 2,037 | – | 48.11 | nil | 63.06 | Jan 2022 |
| | Sept 2019 | 8,716 | – | 351 | 5,755 | 3,312 | – | 56.22 | nil | 48.36 | Jul 2022[3] |
| | Mar 2020 | 7,280 | – | – | – | – | 7,280 | 68.49 | nil | – | Jan 2023[3] |
| | Sept 2020 | 12,639 | – | – | – | – | 12,639 | 49.31 | nil | – | Jul 2023 |
| | Apr 2021 | 8,024 | – | – | – | – | 8,024 | 70.32 | nil | – | Jan 2024 |
| | Sept 2021 | 7,073 | – | – | – | – | 7,073 | 79.78 | nil | – | Jul 2024 |
| | Mar 2022 | – | 7,456 | – | – | – | 7,456 | 79.46 | nil | – | Jan 2025 |
| | Sept 2022 | – | 9,487 | – | – | – | 9,487 | 62.45 | nil | – | Jul 2025 |
| | | **53,917** | | | | | **51,959** | | | | |
| Sharesave | Oct 2018 | 249 | – | – | – | – | 249 | – | 43.48 | – | Dec 2023– Jun 2024 |
| | Oct 2021 | 38 | – | – | – | – | 38 | – | 64.53 | – | Dec 2024– Jun 2025 |
| | | **287** | | | | | **287** | | | | |
| **Richard Papp** | | | | | | | | | | | |
| LTIP | Mar 2019 | 9,873 | – | 510 | 8,409 | 1,974 | – | 48.11 | nil | 63.06 | Jan 2022 |
| | Sept 2019 | 8,449 | – | 341 | 5,579 | 3,211 | – | 56.22 | nil | 48.36 | Jul 2022[3] |
| | Mar 2020 | 7,057 | – | – | – | – | 7,057 | 68.49 | nil | – | Jan 2023[3] |
| | Sept 2020 | 12,252 | – | – | – | – | 12,252 | 49.31 | nil | – | Jul 2023 |
| | Apr 2021 | 7,779 | – | – | – | – | 7,779 | 70.32 | nil | – | Jan 2024 |
| | Sept 2021 | 6,856 | – | – | – | – | 6,856 | 79.78 | nil | – | Jul 2024 |
| | Mar 2022 | – | 7,228 | – | – | – | 7,228 | 79.46 | nil | – | Jan 2025 |
| | Sept 2022 | – | 9,197 | – | – | – | 9,197 | 62.45 | nil | – | Jul 2025 |
| | | **52,266** | | | | | **50,369** | | | | |
| Sharesave | Oct 2021 | **139** | – | – | – | – | **139** | – | 64.53 | – | Dec 2024– Jun 2025 |

| | Date of award | Maximum receivable at start of financial year | Awarded during the year | Dividend accrual shares awarded in the year | Shares vested/ exercised in the year | Lapsed | Maximum receivable at end of financial year | Calculated price at award date[1] £ | Option/ award price £ | Market price on date of vesting/ exercise £ | Vesting date/ exercisable dates[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Jane Shields** | | | | | | | | | | | |
| LTIP | Mar 2019 | 9,873 | – | 510 | 8,409 | 1,974 | – | 48.11 | nil | 63.06 | Jan 2022 |
| | Sept 2019 | 8,449 | – | 341 | 5,579 | 3,211 | – | 56.22 | nil | 48.36 | Jul 2022[3] |
| | Mar 2020 | 7,057 | – | – | – | – | 7,057 | 68.49 | nil | – | Jan 2023[3] |
| | Sept 2020 | 12,252 | – | – | – | – | 12,252 | 49.31 | nil | – | Jul 2023 |
| | Apr 2021 | 7,779 | – | – | – | – | 7,779 | 70.32 | nil | – | Jan 2024 |
| | Sept 2021 | 6,856 | – | – | – | – | 6,856 | 79.78 | nil | – | Jul 2024 |
| | Mar 2022 | – | 7,228 | – | – | – | 7,228 | 79.46 | nil | – | Jan 2025 |
| | Sept 2022 | – | 9,197 | – | – | – | 9,197 | 62.45 | nil | – | Jul 2025 |
| | | **52,266** | | | | | **50,369** | | | | |
| Sharesave | Oct 2018 | 282 | – | – | – | – | 282 | – | 43.48 | – | Dec 2023– Jun 2024 |
| | Oct 2021 | 41 | – | – | – | – | 41 | – | 64.53 | – | Dec 2026– Jun 2027 |
| | | **323** | | | | | **323** | | | | |

1. The calculated LTIP price at award date is NEXT's average share price over the three months prior to the start of the performance period.
2. For LTIP awards, the date in this column is the end of the three year performance period. Actual vesting will be the date on which the Committee determines whether any performance conditions have been satisfied, or shortly thereafter.
3. See page 153 for details of the performance conditions and vesting levels applicable to the LTIP schemes with performance periods ending in the financial year 2022/23. For grants vesting from September 2020, the award may be increased to reflect dividends paid over the period to vesting (assuming reinvestment at the prevailing share price) with such shares added on vesting.
4. The face value of the deferred bonus award to Lord Wolfson equated to £411k, being the portion of his annual bonus for the year to January 2022 in excess of 100% of base salary. The share price used to determine the award was the closing NEXT plc share price on 26 April 2022, which was the date the cash element of the bonus was paid.

The aggregate gains of directors arising from the LTIP conditional share awards that vested in the 2022/23 year totalled £3,781,000 (2021/22: £6,330,000 which included gains from Sharesave exercises). At the end of the year there were no options that had vested but not yet been exercised.

## Scheme interests awarded during the financial year ended January 2023 (audited information)

| LTIP | |
|---|---|
| Face value | In respect of the LTIP conditional share awards granted during the year 2022/23, the maximum "face value" of awards (i.e. the maximum number of shares that would vest if all performance measures are met, multiplied by the average share price used to determine the award) is summarised below. Awards are granted twice a year at 112.5% of base salary. |

| | Mar 2022 £000 | Sept 2022 £000 | Total £000 |
|---|---|---|---|
| Lord Wolfson | 973 | 973 | 1,946 |
| Amanda James | 592 | 592 | 1,184 |
| Richard Papp | 574 | 574 | 1,148 |
| Jane Shields | 574 | 574 | 1,148 |

| | |
|---|---|
| Vesting if minimum performance achieved | 20% of the entitlement will be earned for relative TSR at median. Full vesting requires relative TSR in the upper quintile. |
| Performance period | March 2022 grant: three years to January 2025.<br>September 2022 grant: three years to July 2025. |
| Performance measures | The LTIP performance measures are detailed on page 140. The companies in the TSR comparator group for awards granted during the financial year are in the table on page 158. |
| Dividend roll-up | The award may be increased to reflect dividends paid over the period to vesting (assuming reinvestment at the prevailing share price). |

## Deferred bonus

In addition to the scheme interests detailed above, any annual bonus in excess of 100% of base salary payable to the Chief Executive is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period. The award may be increased to reflect dividends paid over the period to vesting (assuming reinvestment at the prevailing share price) with such shares added on vesting.

# REMUNERATION REPORT

## Performance targets for outstanding LTIP awards (audited information)

Details of the comparator groups for the LTIP three year performance periods commencing August 2019 are shown below.

| | Performance period commencing: | | | | | | |
|---|---|---|---|---|---|---|---|
| Comparator Group Companies | Aug 19 | Feb 20 | Aug 20 | Feb 21 | Aug 21 | Feb 22 | Aug 22 |
| AO World | X | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| ASOS | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| B&M European Value Retail | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Boohoo | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Burberry | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Currys | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| DFS | X | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Dr Martens | X | X | X | X | X | X | ✓ |
| Dunelm | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Halfords | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| J Sainsbury | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| JD Sports Fashion | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Kingfisher | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Marks and Spencer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Morrisons[1] | ✓ | ✓ | X[1] | X[1] | X | X | X |
| Mothercare | ✓ | X | X | X | X | X | X |
| N Brown | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Pets at Home | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Superdry | ✓ | ✓ | X | X | X | X | X |
| Studio Retail Group[2] | X | X | ✓ | ✓ | ✓ | X | X |
| Ted Baker[3] | ✓ | ✓ | ✓ | ✓ | X[3] | X[3] | X |
| Tesco | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Watches of Switzerland | X | X | X | X | ✓ | ✓ | ✓ |
| WH Smith | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

1. Morrisons was delisted in October 2021. Following our established practice, it was removed from the comparator group for awards where less than 18 months of the performance period had elapsed (i.e. performance periods commencing August 2020 and February 2021).
2. Studio Retail Group went into administration in February 2022, for all in-flight schemes its TSR will be set to -100%.
3. Ted Baker was delisted in October 2022. Following our established practice, it was removed from the comparator group for awards where less than 18 months of the performance period had elapsed (i.e. performance periods commencing August 2021 and February 2022).

## Payments to past directors (audited information)

There were no payments made to past directors during the 2022/23 financial year.

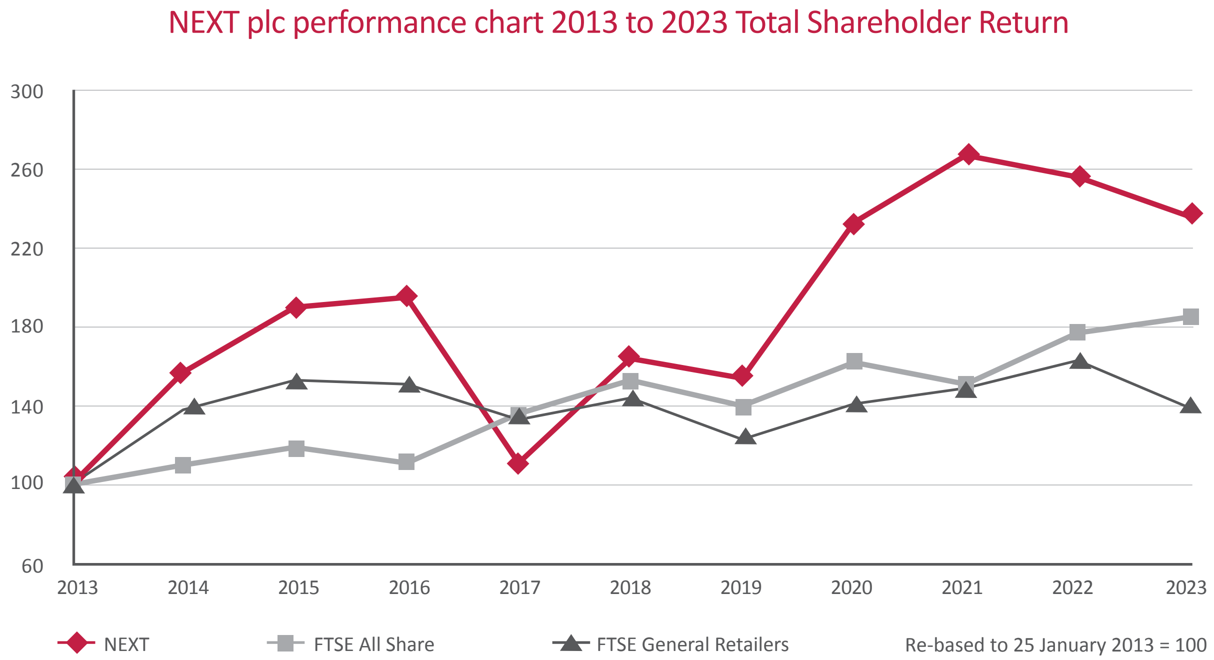
## Payments for loss of office (audited information)

There were no payments made to any director in respect of loss of office during the 2022/23 financial year.

# Performance and CEO remuneration comparison

## Performance graph

The graph below illustrates the TSR performance of the Company when compared with the FTSE All Share and FTSE General Retailers indices. These have been selected to illustrate the Company's total shareholder return performance against a wide UK index and a sector specific index over the ten year period ended January 2023.




# Analysis of Chief Executive's pay over 10 years

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

| Financial year to January | Single figure of total remuneration £000 | Annual bonus pay-out against maximum opportunity[1] | LTIP pay-out against maximum opportunity | SMP pay-out against maximum opportunity |
|---|---|---|---|---|
| 2014 | 4,646 | 100% | Two semi-annual awards vested at 100% each and total value capped at £2.5m | Entitlement waived[2] |
| 2015 | 4,660 | 100% | Two semi-annual awards vested at 100% each and total value capped at £2.5m | Did not participate in 2012–15 SMP |
| 2016 | 4,295 | 45% | Two semi-annual awards vested at 76% and 77% | 100% |
| 2017 | 1,831 | 0% | Two semi-annual awards vested at 61% and 20% | n/a |
| 2018 | 1,153 | 0% | Two semi-annual awards vested at nil | n/a |
| 2019 | 1,327 | 13%[3] | Two semi-annual awards vested at 20% and nil | n/a |
| 2020 | 2,639 | 29% | Two semi-annual awards vested at 67% and 100% | n/a |
| 2021 | 3,582 | 0% | Two semi-annual awards vested at 90% and 100% | n/a |
| 2022 | 4,148 | 100% | Two semi-annual awards vested at 83% and 80% | n/a |
| 2023 | 2,507 | 54% | Two semi-annual awards vested at 62% and 30% | n/a |

1. The maximum bonus for the Chief Executive is 150% of salary.
2. Lord Wolfson waived his entitlement to SMP awards in this year. Had he not done so, his total remuneration would have been £8,947k for the financial year to January 2014.
3. Lord Wolfson waived his entitlement to a portion of his annual bonus. Had he not done so, his bonus pay-out against maximum opportunity would have been 40% and his total remuneration would have been £1,642k for the financial year to January 2019.

# REMUNERATION REPORT

## Annual change in remuneration of each director compared to employees

The table below shows the year on year percentage changes in the directors' remuneration (i.e. salary, taxable benefits and annual bonus) over the last three years compared with the percentage changes in the average of each of those components of pay for Group employees in the UK and Eire. This group has been selected because we believe it is the most appropriate comparator group and represents 85% of the Group's workforce. The Company has chosen to voluntarily disclose this information, given that NEXT plc employs only the directors, not others in our group of companies.

| | Base salary | | | Taxable benefits | | | Bonus | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2022/23** | 2021/22 | 2020/21[1] | **2022/23** | 2021/22 | 2020/21 | **2022/23** | 2021/22 | 2020/21 |
| **Executive directors** | | | | | | | | | |
| Lord Wolfson | **5%** | 6% | -3% | **-1%** | 26% | -13% | **-43%** | 100% | -100% |
| Amanda James | **5%** | 6% | -3% | **5%** | – | -8% | **-43%** | 100% | -100% |
| Richard Papp | **5%** | 6% | -3% | **1%** | – | – | **-43%** | 100% | -100% |
| Jane Shields | **5%** | 6% | -3% | **14%** | -78% | – | **-43%** | 100% | -100% |
| **Non-executive directors** | | | | | | | | | |
| Michael Roney | **5%** | 6% | -3% | **–** | – | – | **–** | – | – |
| Jonathan Bewes[2] | **28%** | 18% | -3% | **–** | – | – | **–** | – | – |
| Soumen Das[3 5] | **18%** | n/a | n/a | **–** | – | – | **–** | – | – |
| Tom Hall[4 5] | **33%** | 21% | n/a | **–** | – | – | **–** | – | – |
| Tristia Harrison | **18%** | 6% | -3% | **–** | – | – | **–** | – | – |
| Dame Dianne Thompson | **18%** | 6% | -3% | **–** | – | – | **–** | – | – |
| UK/Eire Employees (average per FTE) | **8%** | 5% | 2% | **-7%** | -10% | 4% | **-51%** | 510% | -73% |

1. The directors took a 20 per cent voluntary reduction in salary/fees during the initial lockdown period between April and June 2020.
2. Jonathan Bewes was appointed as Senior Independent Director during 2021/22.
3. Soumen Das was appointed to the Board as a non-executive director on 1 September 2021.
4. Tom Hall was appointed Remuneration Committee Chairman during 2021/22.
5. The 2021/22 percentage changes in base salary for Tom Hall and Soumen Das are calculated on an annualised basis.

## Pay ratios

Set out below are ratios which compare the total remuneration of Lord Wolfson (as included in the single total figure of remuneration table on page 152) to the remuneration of the 25th, 50th and 75th percentile of our UK employees. The disclosure will build up over time to cover a rolling ten year period. We expect the pay ratio to vary from year to year, driven largely by the variable pay outcome for Lord Wolfson, which will significantly outweigh any other changes in pay.

| Year | Method | 25th percentile pay ratio | 50th percentile (median) pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 2022/23 | Option B | 126:1 | 113:1 | 79:1 |
| 2021/22 | Option B | 265:1 | 232:1 | 190:1 |
| 2020/21 | Option B | 203:1 | 188:1 | 168:1 |
| 2019/20 | Option B | 151:1 | 148:1 | 106:1 |

We have used Option B in the legislation to calculate the full-time equivalent remuneration for the 25th, 50th and 75th percentile UK employees, leveraging the analysis completed as part of our most recent UK gender pay gap reporting as at 5 April 2022. As we have a very significant employee base, it was felt to be overly complicated to prepare single figure calculations for each individual. Having identified the employees at these three percentiles using the gender pay gap data, we have then used base contract salaries and grossed these up to the full-time equivalents to which we have added actual benefits, bonus, long term incentives and pension (if applicable) of the UK employees falling at these three percentiles. The Committee has considered the methodology and is confident the employees identified are reasonably representative since the structure of their remuneration arrangements is in line with that of the majority of the UK workforce. We consider that these ratios are broadly appropriate in the context of comparison with other retailers.

The base salary and total remuneration received during the financial year by the indicative employees on a full-time equivalent basis used in the above analysis are set out below:

| | 25th percentile | 50th percentile (median) | 75th percentile |
|---|---|---|---|
| Base salary | £19,822 | £21,070 | £26,562 |
| Total remuneration | £19,852 | £22,190 | £31,795 |

The ratios disclosed above are affected by the following factors:

- Of our UK workforce of 38,000, around 90% work in our retail stores, customer contact centres and warehouses where, in line with the retail sector more generally, rates of pay will not be as high as management grades and those employees based at our Head Office in more technical roles. The three indicative employees used in the calculations are either retail sales consultants or warehouse operatives.
- The decrease in the pay ratios in 2022/23 as compared to 2021/22 is largely attributable to the decrease in the amount of variable remuneration received by Lord Wolfson, who has received shares relating to vesting of two LTIPs in the year. NEXT's share price affects the value of these incentive plans whereas typically incentive plans provided to our non-management employees are unaffected by our share price movements.

## Relative importance of spend on pay

The table below shows the total remuneration paid to or receivable by all employees in the Group together with other significant distributions and payments (i.e. for share buybacks and dividends).

| | Total wages and salaries | Buybacks | Dividends |
|---|---|---|---|
| 2022/23 | £771.3m | £224.0m | £237.4m |
| 2021/22 | £703.2m | £13.1m | £344.5m |
| % change | 9.7% | 1,609.9% | -31.1% |

## Dilution of share capital by employee share plans

The Company monitors and complies with dilution limits in its various share scheme rules and has not issued new or treasury shares in satisfaction of share schemes in the last 10 years. Share-based incentives are in most cases satisfied from shares purchased and held by the ESOT (refer to Note 25 to the financial statements).

## Consideration of matters relating to directors' remuneration

### Remuneration Committee

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

| Member |
|---|
| Tom Hall (Committee Chairman) |
| Jonathan Bewes |
| Soumen Das |
| Tristia Harrison |
| Michael Roney |
| Dame Dianne Thompson |

Attendance at Committee meetings is shown on page 121.

### Role and work of Remuneration Committee

The Committee determines the remuneration of the Group's Chairman and executive directors, and approves that of senior executives (consistent with the Code). It is also responsible for determining the targets for performance-related pay schemes, approves any award of the Company's shares under share option or incentive schemes to employees, and oversees any major changes in employee benefit structures. The Committee members have no conflicts of interest arising from cross-directorships and no director is permitted to be involved in any decisions as to his or her own remuneration. The remuneration of non-executive directors is decided by the Chairman and executive directors of the Board. The Committee's terms of reference are available on our corporate website nextplc.co.uk or on request from the Company Secretary.

# REMUNERATION REPORT

### Assistance to the Committee

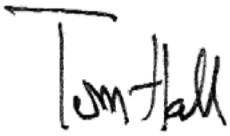
During the period, the Committee received input from the Chief Executive and the Group Finance Director. The Committee engaged FIT Remuneration Consultants LLP and FIT Remuneration Implementation LLP (together FIT) to provide independent external advice, including updates on legislative requirements, best practice, and other matters of a technical nature and related to share plans. FIT have no other connection with the Company. Deloitte LLP provided independent verification services of total shareholder returns for NEXT and the comparator group of companies under the LTIP. Deloitte provides other consultancy services to the Group on an ad hoc basis. FIT and Deloitte were appointed by the Committee based on their expertise in the relevant areas of interest.

During the year FIT was paid circa £57k and Deloitte was paid circa £5k for the services described above, charged at their standard hourly rates. Both are members of the Remuneration Consultants Group, the body that oversees the Code of Conduct in relation to executive remuneration consulting in the UK and have confirmed to us that they adhere to its Code. Based on the nature of the advice, and the relatively modest fees, the Committee was satisfied that the advice received was objective and independent.

## Voting outcomes at General Meetings

| | AGM | Votes for | % for | Votes against | % against | Total votes cast | % of shares on register | Votes withheld |
|---|---|---|---|---|---|---|---|---|
| To approve the Remuneration Policy | 2020 | 92,690,078 | 91.8 | 8,252,433 | 8.2 | 100,942,511 | 75.9 | 393,732 |
| To approve the 2021/22 Remuneration Report | 2022 | 92,593,169 | 92.5 | 7,515,888 | 7.5 | 100,109,057 | 76.4 | 16,254 |

On behalf of the Board



**Tom Hall**
Chairman of the Remuneration Committee

29 March 2023

# DIRECTORS' REPORT

## Information contained in the Strategic Report

As permitted by section 414C of the Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report. Specifically, this relates to:

- Information in respect of employee matters (including actions taken to introduce, maintain or develop arrangements aimed at employees, details on how the directors have engaged with employees and had regard to employee interests, our approach to investing in and rewarding the workforce, employee diversity and the employment, training and advancement of disabled persons) (see page 98).
- Likely future developments.
- Risk management (see pages 74 to 82).
- Details on how the directors have had regard to the need to foster business relationships with stakeholders (see page 107).
- Greenhouse gas emissions (see page 86 for our Streamlined Energy and Carbon Reporting (SECR) disclosures and page 88 for our GHG Emissions).

## Financial instruments

Information on financial instruments and the use of derivatives is given in Notes 26 to 29 to the financial statements.

## Annual General Meeting

The 2023 Annual General Meeting (AGM) of NEXT plc will be held at Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW on Thursday 18 May 2023 at 9.30 am. The Notice of Annual General Meeting, which includes the business to be transacted at the meeting, is set out from page 249.

## Dividends

Information regarding dividends during 2022/23 is provided in the Strategic Report on page 60.

The Trustee of the NEXT ESOT has waived dividends paid in the year on the shares held by it. Please refer to Note 25 to the financial statements for further information.

## Share capital and major shareholders

Details of the Company's share capital are shown in Note 22 to the financial statements.

The Company was authorised by its shareholders at the 2022 AGM to purchase its own shares. During the financial year the Company purchased and cancelled 3,508,417 ordinary shares with a nominal value of 10 pence each (none of which were purchased off-market), at a cost of £224m and representing 2.64% of its issued share capital at the start of the year.

At the financial year end 28 January 2023, the Company had 129,263,359 shares in issue. Subsequent to the end of the financial year the Company purchased for cancellation 526,099 of its own shares at a cost of £36.2m and as at 28 March 2023 the number of shares in issue was 128,737,260.

As at 28 January 2023, the Company had been notified under the Disclosure and Transparency Rules (DTR 5) of the following notifiable interests in the Company's issued share capital. The information provided below was correct at the date of notification. These holdings are likely to have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed.

| | Notifications received as at 28 January 2023 | | | |
|---|---|---|---|---|
| | **No. of voting rights at date of notification** | **% of voting rights at date of notification** | **Nature of holding** | **Date of notification** |
| FMR LLC (Fidelity) | 12,924,297 | 9.99 | Indirect interest | 21 July 2022 |
| BlackRock, Inc. | 12,691,696 | 9.68 | Indirect interest | 17 May 2022 |
| Invesco Limited | 7,008,384 | 5.42 | Indirect interest | 13 October 2022 |
| NEXT plc Employee Share Option Trust | 6,592,270 | 5.10 | Direct interest | 21 October 2022 |
| Norges Bank | 3,862,059 | 2.99 | Direct interest | 21 October 2022 |

The following notifications were received after 28 January 2023 up to 28 March 2023.

| | **No. of voting rights at date of notification** | **% of voting rights at date of notification** | **Nature of holding** | **Date of notification** |
|---|---|---|---|---|
| NEXT plc Employee Share Option Trust | 6,415,949 | 4.96 | Direct interest | 7 February 2023 |
| FMR LLC (Fidelity) | 12,924,005 | 10.01 | Indirect interest | 15 February 2023 |

# DIRECTORS' REPORT

## Additional information

### Shareholder and voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. Voting on all resolutions at the 2023 AGM will be by way of a poll. On a poll, every member present in person or by proxy has one vote for every ordinary share held or represented. The Notice of Meeting specifies the deadlines for exercising voting rights.

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

The Company's Articles may only be amended by a special resolution at a General Meeting. Directors are elected or re-elected by ordinary resolution at a General Meeting; the Board may appoint a director but anyone so appointed must be elected by ordinary resolution at the next General Meeting. Under the Articles, directors retire and may offer themselves for re-election at a general meeting at least every three years. However, in line with the provisions of the UK Corporate Governance Code, all directors stand for re-election annually.

### Change of control

The Company is not party to any significant agreements which take effect, alter or terminate solely upon a change of control of the Company. However, in the event of a change of control of the Company or NEXT Group plc, NEXT Group plc's medium term borrowing facilities will be subject to early repayment in full if a majority of the lending banks give written notice, or in part if a lending bank gives written notice following a change of control. In addition, the holders of NEXT Group plc's corporate bonds will be entitled to call for redemption of the bonds by NEXT Group plc or the Company as guarantor at their nominal value together with accrued interest in the following circumstances:

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

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

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

### Branches

NEXT, through various subsidiaries, has established branches in a number of different countries in which the business operates.

### Corporate governance

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

The following disclosures are required under Listing Rule 9.8.4 R:

| | |
|---|---|
| Publication of unaudited financial information | On 4 January 2023, NEXT published a Profit Before Tax (PBT) guidance forecast for the year to January 2023 of £860m. Actual PBT for the period was £869.3m. |
| Shareholder waivers of dividends | The NEXT Employee Share Ownership Trust typically waives its rights to receive dividends during the year. |

No further LR 9.8.4 disclosures are required.

In the case of each director in office at the date the Directors' Report is approved:

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

This Directors' Report, comprising pages 114 to 164, has been approved by the Board and is signed on its behalf by

A James

**Amanda James**
Group Finance Director

29 March 2023

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXT PLC

## Report on the audit of the financial statements

### Opinion

In our opinion:

- NEXT plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 28 January 2023 and of the group's profit and the group's cash flows for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: consolidated and parent company balance sheets as at 28 January 2023; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of changes in equity and the consolidated cash flow statement for the period then ended; the group accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

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

#### Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 3 to the consolidated financial statements, we have provided no non-audit services to the parent company or its controlled undertakings in the period under audit.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXT PLC

## Our audit approach

### Overview

#### Audit scope

- We conducted an audit of the complete financial information of one financially significant component as well as one other component. Targeted specified procedures were performed over a further component.
- The financially significant component was audited by the UK group engagement team with the remaining component subject to an audit of the complete financial information audited by an overseas component team located in Hong Kong.
- In addition, the group engagement team performed audit procedures over centralised functions including the group consolidation, financial statement disclosures and areas of estimate / judgement including goodwill, intangible assets, business combinations, leases, taxation, treasury, post-retirement benefits and equity accounted investments.
- The components on which full scope audits, targeted specified procedures and centralised work was performed accounted for 87% of revenue, 86% of profit before tax and 94% of total assets.

#### Key audit matters

- The application of key judgements and assumptions in relation to applying expected credit loss (ECL) provisioning on customer receivables (group)
- Net realisable valuation of inventories (group)
- Impairment of right-of-use assets and property, plant and equipment associated with Retail stores (group)
- Accounting for the Reiss and Joules investments (group)
- Defined benefit pension assumptions (group)
- Recoverability of investments (parent company)

#### Materiality

- Overall group materiality: £43,500,000 (2022: £41,000,000) based on 5% of profit before tax.
- Overall parent company materiality: £26,700,000 (2022: £26,500,000) based on 1% of total assets.
- Performance materiality: £32,625,000 (2022: £30,750,000) (group) and £20,000,000 (2022: £19,875,000) (parent company).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Accounting for sale and leaseback transactions, which was a key audit matter last year, is no longer included because the complexities of the transaction were specific to the prior year. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **The application of key judgements and assumptions in relation to applying expected credit loss (ECL) provisioning on customer receivables**<br>**Group**<br>Refer to the audit committee report, the major sources of estimation uncertainty and judgement within the group accounting policies and note 13 for customer and other receivables.<br>As at 28 January 2023, the group has gross customer receivables of £1,457m (Jan-22: £1,352m), with ECL provisions of £201.9m held against them (Jan-22: £190.8m).<br>The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the group's view of potential future economic events. This can give rise to increased estimation uncertainty, which is compounded by the inflationary and interest rate environment in the UK and therefore affordability.<br>Having assessed the economic outlook and the limitations of any provisioning model to fully reflect inherent risk in the current economic environment, the group holds an affordability post-model adjustment of £24.4m. This adjustment applies an increased level of provision coverage to those customers identified as being at the greatest risk of going into default due to the rising cost of living.<br>We consider the following elements of the determination of modelled ECL for customer receivables to be significant:<br>• The application of forward-looking unemployment assumptions used in the models and the weightings assigned to those scenarios; and<br>• The completeness and appropriateness of post-model adjustments that are recorded to take into account latent risks and known model limitations, in particular those addressing the risk associated with customer affordability. | With the support of our financial services and credit risk modelling specialists and our economics experts, we performed the following procedures:<br>We understood and critically assessed the appropriateness of the ECL accounting policy, model methodologies, and mathematical accuracy of the models used by management.<br>We tested model performance by replicating, on a sample basis, key model components and comparing actual outcomes with those previously predicted by the models.<br>We assessed the reasonableness and likelihood of the forward looking economic assumptions and weightings assigned to the scenarios using a benchmarking tool developed by our economic experts. We assessed their reasonableness against known or likely economic, political and other relevant events.<br>The severity and magnitude of the unemployment forecasts were compared to external forecasts and data from historical economic downturns.<br>Based on our knowledge and understanding of the limitations in management's models and emerging industry risks, we evaluated the appropriateness and completeness of the post model adjustments proposed by management.<br>We tested the £24.4m customer affordability post-model adjustment by critically assessing the methodology applied and testing the underlying assumptions used in the calculation to supporting evidence. We also independently quantified and sensitised a customer affordability post-model adjustment, based on our own view of latent and inherent credit risk.<br>We tested the ECL disclosures made by management to assess compliance with accounting standards.<br>We found the application of key judgements and assumptions relating to the ECL provision to be consistent with the evidence obtained. |
| **Net realisable valuation of inventories**<br>**Group**<br>Refer to the audit committee report and the other areas of estimation uncertainty and judgement within the group accounting policies.<br>The valuation of inventory involves judgement in the recording of provisions for shrinkage, obsolescence and inventory that may have a lower net realisable value than cost.<br>Management have calculated the provision using a top down model, using their knowledge of the following:<br>– the forecast sell through rates of current and prior season inventory to determine inventory expected to be sold via clearance channels;<br>– the forecast cash recovery rates on inventory sold via clearance channels; and<br>– expectations of future customer behaviour and the wider economic impact. | We validated the integrity of the provision model and inputs and ensured that it was using the underlying data correctly and calculating provision amounts accurately.<br>We examined inventory write-offs in the financial period to ensure they are consistent with the key assumptions used in the inventory provision model at the year end.<br>We recalculated the provision based on coverage levels seen in previous years, including pre-COVID and benchmarked against other retailers.<br>We challenged management on the inclusion of specific judgemental parts of the provisions, in excess of calculations from recent historical data models, in response to expected consumer behaviour changes.<br>We have performed sensitivity analysis over key judgements taken by management and assessed the impact of this sensitivity analysis on the provision value.<br>We found that the provisions recorded were consistent with the evidence obtained. |

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXT PLC

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of right-of-use assets and property, plant and equipment associated with Retail stores**<br>**Group**<br>Refer to the audit committee report, the other areas of estimation uncertainty and judgement within the group accounting policies and note 3 for operating profit.<br>In accordance with IAS 36 (impairment of assets), the group is required to assess the recoverability of right-of-use assets and property, plant and equipment where there are indicators of impairment. The group is also required to assess whether there are any indicators that an impairment loss recognised in prior periods may have reversed.<br>For the purposes of impairment assessments, management determines each store to be a cash generating unit ("CGU").<br>The group has identified certain CGUs which were impaired in previous periods and have indicators of impairment reversal. A net impairment reversal of £37.6m was recognised as a result of improved cash flow forecasts compared to the prior period. Impairment indicators have only been identified in a small number of CGUs. | We assessed management's determination that each store is a CGU and found this to be appropriate.<br>We evaluated management's methodology when assessing which CGUs either have an impairment or an impairment reversal indicator with reference to the requirements of IAS 36.<br>In addition to this work, we formed an independent expectation of whether impairment or impairment reversal indicators were apparent with reference to:<br>• trading results of the Retail segment and individual CGUs; and<br>• lease modifications which have resulted in an increase in the right-of-use asset.<br>For CGUs determined to have either an impairment or impairment reversal trigger, we tested the calculation of recoverable amount by:<br>• ensuring that assets were appropriately allocated to these CGUs;<br>• testing the integrity of management's model, as well as agreeing underlying data to source documents; and<br>• testing the forecast cash flows and assumptions, noting that these were not materially sensitive to reasonable changes.<br>We found that the accounting for impairment of right-of-use assets and property, plant and equipment was consistent with the evidence obtained. |
| **Accounting for the Reiss and Joules investments**<br>**Group**<br>Refer to the audit committee report, the major sources of estimation uncertainty and judgement within the group accounting policies, note 12 for associates, joint ventures and other investments and note 32 for acquisition of subsidiary.<br>On 28 February 2022, NEXT exercised its option to acquire a further 26% indirect interest in Reiss Limited ("Reiss") which increased its overall interest to a 51% equity stake. Whilst NEXT owns a majority equity interest, the shareholder agreement includes a series of matters which give rights to minority shareholders ("reserved matters"). The extent of these reserved matters resulted in NEXT concluding that it does not have the power to direct the relevant activities of Reiss and so does not have control over Reiss. Reiss has therefore been accounted for as a Joint Venture rather than a subsidiary.<br>On 1 December 2022, NEXT acquired 74% of the trade and assets of Joules. A shareholder agreement was also entered into with the other equity investors, including certain reserved matters. NEXT has determined that these reserved matters do not impact NEXT's power to direct the relevant activities of Joules. NEXT has concluded that it has control over Joules and it has been accounted for as a subsidiary and as a business combination in the financial year. | For both the Reiss and Joules investments, we obtained the shareholder agreement and accounting memorandum prepared by management.<br>We reviewed the shareholder agreements and verified that management had accurately extracted the pertinent information, including the reserved matters, in their accounting papers.<br>With regards to the investment in Reiss, we were satisfied that the reserved matters confer sufficient rights to the minority shareholder such that NEXT is not able to direct the relevant activities of Reiss and certain operational and financial matters require joint agreement from all shareholders. We therefore found management's conclusion that it does not control Reiss to be reasonable.<br>With regards to the investment in Joules, we were satisfied that the reserved matters do not constrain NEXT in its ability to direct the relevant activities of Joules. We therefore found management's conclusion, that NEXT controls Joules, to be reasonable.<br>We assessed the disclosures included in the Major Sources of Estimation Uncertainty and Judgement section of the Group Accounting Policies and found them to be reasonable. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Defined benefit pension assumptions**<br>**Group**<br>Refer to the audit committee report, the major sources of estimation uncertainty and judgement within the group accounting policies and note 20 for pension benefits.<br>The defined benefit pension schemes obligation is calculated based on actuarial assumptions which are subject to significant estimation uncertainty and are also sensitive to changes. | We used actuarial specialists to review the key actuarial assumptions for the Original Plan, the 2013 Plan and the SPA.<br>We found that the assumptions utilised by NEXT in the pension obligation valuation were reasonable and within our expected ranges. We also ensured the sensitivity analysis disclosed in the financial statements was consistent with the actuarial report. |
| **Recoverability of investments**<br>**Parent company**<br>Refer to note C2 of the parent company financial statements for Investments.<br>In accordance with IAS 36, the parent company's investments balance of £2,475.7m (Jan-22: £2,475.7m) should be carried at no more than its recoverable amount, being the higher of fair value less costs to sell and its value in use. | We evaluated whether there were any indicators of an impairment trigger in relation to the parent company's investments balance, with specific consideration given to the following:<br>• the market capitalisation of the group, which is significantly in excess of the investments balance, noting that substantially all of the market capitalisation is considered to be in relation to one indirect subsidiary (NEXT Retail Limited) of the parent company;<br>• the trading results of NEXT Retail Limited, which are no worse than expected and are not expected to be worse in future periods; and<br>• any significant changes with an adverse impact in relation to the technological, market, economic or legal environment in which NEXT Retail Limited operates, noting that there were no such changes.<br>We consider management's conclusion that there are no indicators of impairment to be appropriate. |

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXT PLC

## How we tailored the audit scope

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

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the group consolidation. Of the group's 45 components, we identified one component which, in our view, required an audit of its complete financial information both due to its size and risk characteristics (forms the majority of the NEXT Retail, NEXT Online and NEXT Finance segments).

In addition, a full scope audit was performed over one other component, Next Sourcing Limited, by an overseas component audit team in Hong Kong, although this was not considered to be individually significant either financially or due to risk characteristics. The overseas component audit team worked under instruction of the group engagement team and were in regular contact with the group engagement team throughout the audit cycle from planning to completion. In particular, the group engagement team held video calls with the component audit team and performed a working paper review.

Targeted specified procedures were also performed over one other component which held balances of significance to the group financial statements.

Further, the Group engagement team performed audit procedures over centralised functions including the Group consolidation, financial statement disclosures and areas of estimate / judgement including goodwill, intangible assets, business combinations, leases, taxation, treasury, post-retirement benefits and equity accounted investments. The Group engagement team also performed analytical procedures on all insignificant components.

The components on which full scope audits, targeted specified procedures and centralised work was performed accounted for 87% of revenue, 86% of profit before tax and 94% of total assets.

The parent company is comprised of one reporting unit which was subject to a full scope audit for the purposes of the parent company financial statements.

## The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process adopted to assess the extent of the potential impact of climate risk on the financial statements and to support the disclosures made within the Strategic Report.

Our risk assessment was based on this enquiry as well as review of NEXT's most recent corporate responsibility reporting and climate-related commitments.

As detailed in the group accounting policies, management considers that the impact of climate risk does not give rise to a material financial statement impact.

We evaluated management's disclosures based on our knowledge of the business, including from our testing of right-of-use assets and property plant and equipment, which were considered to be the assets at most risk of the effects of climate change.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Task Force on Climate-related Financial Disclosures (TCFD) section) within the Annual Report with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 28 January 2023.

## Materiality

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

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

| | Financial statements – Group | Financial statements – Parent Company |
|---|---|---|
| Overall materiality | £43,500,000 (2022: £41,000,000). | £26,700,000 (2022: £26,500,000). |
| How we determined it | 5% of profit before tax | 1% of total assets |
| Rationale for benchmark applied | Profit before tax is the primary measure used by the shareholders in assessing the performance of the group and is a generally accepted auditing benchmark. | The parent company does not trade and therefore total assets is considered to be the most appropriate benchmark. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £12,000,000 to £39,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £32,625,000 (2022: £30,750,000) for the group financial statements and £20,000,000 (2022: £19,875,000) for the parent company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2,200,000 (group audit) (2022: £2,000,000) and £1,335,000 (parent company audit) (2022: £1,325,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's going concern assessment which included a base case and other scenarios including a reverse stress test;
- We ensured the base case was consistent with Board approved budgets and we assessed the appropriateness of this budget and other assumptions during the going concern period;
- We assessed the mathematical accuracy of the calculations for liquidity headroom for the base case and reverse stress test scenarios. We also tested the forecast covenant compliance for the base case and were satisfied it was not a critical factor in the reverse stress test;
- We have evaluated management's ability to budget based on historical budgets/forecasts and the resulting performance;
- We considered the mitigating actions available to NEXT to increase liquidity, if required, with the key actions being reductions in stock purchases, capex and share purchases, as well as cessation of dividends; and
- We assessed management's reverse stress test and were satisfied it was a scenario that, in our view, was not plausible.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXT PLC

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 28 January 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

### Directors' Remuneration

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

## Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and parent company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the parent company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and parent company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and parent company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

# Responsibilities for the financial statements and the audit

## Responsibilities of the directors for the financial statements

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

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

## Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of consumer credit regulations and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate revenue and/or profits and management bias in significant accounting estimates and judgements. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, internal audit, internal legal counsel, compliance managers and the Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulation or fraud;
- Assessment of matters reported on the group's whistle-blowing log and the results of management's investigation of such matters;
- Review of filings and correspondence with the Financial Conduct Authority and tax authorities;
- Searches for news articles which would highlight potential non-compliance with laws and regulations;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular in relation to recoverability of customer receivables (see related key audit matter above).

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

## Use of this report

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

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEXT PLC

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 18 May 2017 to audit the financial statements for the year ended 27 January 2018 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 27 January 2018 to 28 January 2023.

## Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

**Mark Skedgel (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

29 March 2023



# GROUP FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

| | Notes | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|---|
| ***Continuing operations*** | | | |
| **Revenue (including credit account interest)** | 1, 2 | **5,034.0** | 4,625.9 |
| Cost of sales | | **(2,827.7)** | (2,625.3) |
| Impairment losses on customer and other receivables | 13 | **(31.0)** | (28.6) |
| **Gross profit** | | **2,175.3** | 1,972.0 |
| Distribution costs | | **(750.0)** | (693.7) |
| Administrative expenses | | **(481.8)** | (380.2) |
| Other (losses)/gains | 3 | **(16.3)** | 2.5 |
| **Trading profit** | | **927.2** | 900.6 |
| Share of results of associates and joint ventures | 12 | **14.3** | 4.8 |
| **Operating profit** | 3 | **941.5** | 905.4 |
| Finance income | 5 | **5.7** | 4.2 |
| Finance costs | 5 | **(77.9)** | (86.5) |
| **Profit before taxation** | | **869.3** | 823.1 |
| Taxation | 6 | **(158.6)** | (145.6) |
| **Profit for the year** | | **710.7** | 677.5 |
| | | | |
| **Profit attributable to:** | | | |
| – Equity holders of the Parent Company | | **711.7** | 677.5 |
| – Non-controlling interests | | **(1.0)** | – |
| | | **710.7** | 677.5 |
| | | | |
| **Earnings Per Share** | | | |
| Basic | 8 | **573.4p** | 530.8p |
| Diluted | 8 | **570.5p** | 524.0p |

The Notes 1 to 33 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|---|
| **Profit for the period** | | **710.7** | 677.5 |
| *Other comprehensive income and expenses:* | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial gains on defined benefit pension scheme | 20 | **0.6** | 55.1 |
| Tax relating to items which will not be reclassified | 6 | **(0.1)** | (13.8) |
| *Subtotal items that will not be reclassified* | | **0.5** | 41.3 |
| **Items that may be reclassified to profit or loss** | | | |
| Exchange differences on translation of foreign operations | | **1.2** | (2.4) |
| Foreign currency cash flow hedges: | | | |
| – fair value movements | | **79.2** | 36.9 |
| Cost of hedging | | | |
| – fair value movements | | **(0.4)** | 0.8 |
| Tax relating to items which may be reclassified | 6 | **(19.7)** | (7.2) |
| *Subtotal items that may be reclassified* | | **60.3** | 28.1 |
| Other comprehensive income for the period | | **60.8** | 69.4 |
| **Total comprehensive income for the period** | | **771.5** | 746.9 |
| **Total comprehensive income attributable to:** | | | |
| – Equity holders of the Parent Company | | **772.5** | 746.9 |
| – Non-controlling interests | | **(1.0)** | – |
| | | **771.5** | 746.9 |

# CONSOLIDATED BALANCE SHEET

| | Notes | 28 January 2023 £m | 29 January 2022 £m |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **644.8** | 601.1 |
| Intangible assets | 10 | **137.1** | 79.3 |
| Right-of-use assets | 11 | **662.0** | 639.1 |
| Associates, joint ventures and other investments | 12 | **114.6** | 46.2 |
| Defined benefit pension asset | 20 | **157.5** | 156.9 |
| Other financial assets | 14 | **–** | 18.0 |
| Deferred tax assets | 6 | **33.3** | 34.0 |
| | | **1,749.3** | 1,574.6 |
| **Current assets** | | | |
| Inventories | | **662.2** | 633.0 |
| Customer and other receivables | 13 | **1,425.5** | 1,280.9 |
| Right of return asset | | **32.7** | 24.8 |
| Other financial assets | 14 | **9.1** | 35.5 |
| Cash and short term deposits | 15 | **105.0** | 433.0 |
| | | **2,234.5** | 2,407.2 |
| **Total assets** | | **3,983.8** | 3,981.8 |
| **Current liabilities** | | | |
| Bank loans and overdrafts | 16 | **(102.3)** | (233.1) |
| Trade payables and other liabilities | 17 | **(791.1)** | (798.4) |
| Lease liabilities | 11 | **(146.2)** | (162.6) |
| Other financial liabilities | 18 | **(40.8)** | (1.0) |
| Current tax liabilities | | **(12.9)** | (13.0) |
| | | **(1,093.3)** | (1,208.1) |
| **Non-current liabilities** | | | |
| Corporate bonds | 19 | **(790.7)** | (815.7) |
| Provisions | 21 | **(33.8)** | (21.9) |
| Lease liabilities | 11 | **(877.1)** | (894.9) |
| Other financial liabilities | 18 | **(9.5)** | – |
| Other liabilities | 17 | **(14.3)** | (31.2) |
| | | **(1,725.4)** | (1,763.7) |
| **Total liabilities** | | **(2,818.7)** | (2,971.8) |
| **NET ASSETS** | | **1,165.1** | 1,010.0 |
| **TOTAL EQUITY** | | **1,165.1** | 1,010.0 |

The financial statements were approved by the Board of directors and authorised for issue on 29 March 2023. They were signed on its behalf by:

**Lord Wolfson of Aspley Guise**
Chief Executive

**Amanda James**
Group Finance Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Parent Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital £m | Share premium account £m | Capital redemption reserve £m | ESOT reserve £m | Cash flow hedge reserve £m | Cost of hedging reserve £m | Foreign currency translation £m | Other reserves (Note 23) £m | Retained earnings £m | Total £m | Non-controlling interests £m | **Total equity £m** |
| **At 30 January 2021** | **13.3** | **0.9** | **16.6** | **(271.2)** | **(19.7)** | **0.1** | **(2.5)** | **(1,443.8)** | **2,367.2** | **660.9** | **–** | **660.9** |
| Profit for the period | – | – | – | – | – | – | – | – | 677.5 | **677.5** | – | **677.5** |
| Other comprehensive income/(expense) for the period | – | – | – | – | 29.9 | 0.6 | (2.4) | – | 41.3 | **69.4** | – | **69.4** |
| Total comprehensive income/(expense) for the period | – | – | – | – | 29.9 | 0.6 | (2.4) | – | 718.8 | **746.9** | – | **746.9** |
| Share buybacks and commitments (Note 22) | – | – | – | – | – | – | – | – | (13.1) | **(13.1)** | – | **(13.1)** |
| ESOT share purchases (Note 25) | – | – | – | (151.3) | – | – | – | – | – | **(151.3)** | – | **(151.3)** |
| Shares issued by ESOT (Note 25) | – | – | – | 90.8 | – | – | – | – | (24.4) | **66.4** | – | **66.4** |
| Share option charge | – | – | – | – | – | – | – | – | 19.9 | **19.9** | – | **19.9** |
| Reclassified to cost of inventory | – | – | – | – | 21.7 | – | – | – | – | **21.7** | – | **21.7** |
| Tax recognised directly in equity (Note 6) | – | – | – | – | (4.0) | – | – | – | 7.1 | **3.1** | – | **3.1** |
| Equity dividends (Note 7) | – | – | – | – | – | – | – | – | (344.5) | **(344.5)** | – | **(344.5)** |
| **At 29 January 2022** | **13.3** | **0.9** | **16.6** | **(331.7)** | **27.9** | **0.7** | **(4.9)** | **(1,443.8)** | **2,731.0** | **1,010.0** | **–** | **1,010.0** |
| Profit for the period | – | – | – | – | – | – | – | – | 711.7 | **711.7** | (1.0) | **710.7** |
| Other comprehensive income/(expense) for the period | – | – | – | – | 59.4 | (0.3) | 1.2 | – | 0.5 | **60.8** | – | **60.8** |
| Total comprehensive income/(expense) for the period | – | – | – | – | 59.4 | (0.3) | 1.2 | – | 712.2 | **772.5** | (1.0) | **771.5** |
| Share buybacks and commitments (Note 22) | (0.4) | – | 0.4 | – | – | – | – | – | (224.0) | **(224.0)** | – | **(224.0)** |
| ESOT share purchases (Note 25) | – | – | – | (124.0) | – | – | – | – | – | **(124.0)** | – | **(124.0)** |
| Shares issued by ESOT (Note 25) | – | – | – | 59.0 | – | – | – | – | (18.2) | **40.8** | – | **40.8** |
| Share option charge | – | – | – | – | – | – | – | – | 24.3 | **24.3** | – | **24.3** |
| Reclassified to cost of inventory | – | – | – | – | (128.7) | – | – | – | – | **(128.7)** | – | **(128.7)** |
| Non-controlling interest on acquisition of subsidiary | – | – | – | – | – | – | – | – | – | **–** | 5.6 | **5.6** |
| Gain on disposal of investment | – | – | – | – | – | – | – | – | 0.8 | **0.8** | – | **0.8** |
| Tax recognised directly in equity (Note 6) | – | – | – | – | 30.1 | – | – | – | (4.2) | **25.9** | – | **25.9** |
| Equity dividends (Note 7) | – | – | – | – | – | – | – | – | (237.1) | **(237.1)** | – | **(237.1)** |
| **At 28 January 2023** | **12.9** | **0.9** | **17.0** | **(396.7)** | **(11.3)** | **0.4** | **(3.7)** | **(1,443.8)** | **2,984.8** | **1,160.5** | **4.6** | **1,165.1** |

# CONSOLIDATED CASH FLOW STATEMENT

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit | **941.5** | 905.4 |
| Depreciation, reversal of impairment and (profit)/loss on disposal of property, plant and equipment | **80.6** | 90.3 |
| Depreciation and impairment reversal on right-of-use assets | **72.7** | 112.6 |
| Amortisation and impairment of intangible assets | **12.5** | 4.3 |
| Amortisation, impairment & disposals of investments | **1.1** | – |
| Share option charge | **24.3** | 19.9 |
| Share of profit of associates and joint ventures | **(14.3)** | (4.8) |
| Exchange movement | **(0.8)** | (1.6) |
| Increase in inventories and right of return asset | **(22.8)** | (96.5) |
| Increase in customer and other receivables | **(156.5)** | (165.4) |
| Increase in trade and other payables | **12.0** | 235.2 |
| Net pension contributions less income statement charge | **–** | (2.7) |
| Cash generated from operations | **950.3** | 1,096.7 |
| Corporation taxes paid | **(151.5)** | (125.3) |
| **Net cash from operating activities** | **798.8** | 971.4 |
| **Cash flows from investing activities** | | |
| Additions to property, plant and equipment | **(207.1)** | (239.2) |
| Movement in capital accruals | **2.0** | (4.4) |
| Payments to acquire property, plant and equipment | **(205.1)** | (243.6) |
| Proceeds from sale of property, plant and equipment | **–** | 3.4 |
| Proceeds from sale and leaseback transactions | **41.7** | 15.5 |
| Purchase of intangible assets | **(41.0)** | (22.7) |
| Amounts repaid/(lent) to associates and joint ventures | **11.3** | (10.8) |
| Disposal of other investment | **1.8** | – |
| Investment in subsidiaries | **(28.8)** | – |
| Investment in associates and joint ventures | **(64.7)** | (34.3) |
| Acquisition of other investments | **(1.9)** | – |
| Dividend from jointly controlled entity | **9.8** | – |
| Disposal of preference shares in jointly controlled entity | **5.5** | – |
| **Net cash from investing activities** | **(271.4)** | (292.5) |
| **Cash flows from financing activities** | | |
| Repurchase of own shares | **(228.5)** | (8.7) |
| Purchase of shares by ESOT | **(124.0)** | (151.3) |
| Disposal of shares by ESOT | **34.3** | 72.5 |
| Repayment of bond | **–** | (325.0) |
| Incentives received for leases within the scope of IFRS 16 | **0.1** | 11.9 |
| Lease payments | **(157.1)** | (172.3) |
| Interest paid (including lease interest) | **(74.1)** | (91.1) |
| Interest received | **0.3** | 0.8 |
| Proceeds from sale and leaseback transactions | **59.3** | 14.3 |
| Dividends paid (Note 7) | **(237.4)** | (344.5) |
| **Net cash from financing activities** | **(727.1)** | (993.4) |
| **Net decrease in cash and cash equivalents** | **(199.7)** | (314.5) |
| Opening cash and cash equivalents | **199.9** | 514.8 |
| Effect of exchange rate fluctuations on cash held | **2.5** | (0.4) |
| **Closing cash and cash equivalents (Note 30)** | **2.7** | 199.9 |

# GROUP ACCOUNTING POLICIES

## General Information

NEXT plc and its subsidiaries (the "Group") is a UK based retailer selling beautifully designed, excellent quality clothing, homeware and beauty products which are responsibly sourced and accessibly priced. The Company is a public limited company, which is listed on the London Stock Exchange and incorporated in England and Wales and domiciled in the UK. The address of the registered office is Desford Road, Enderby, Leicester LE19 4AT.

## Basis of Preparation

The financial statements of NEXT plc and the Group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared on the historical cost basis except for certain financial instruments, pension assets and liabilities and share-based payment liabilities which are measured at fair value. As is common in the retail sector, the Group operates a weekly accounting calendar and this year the financial statements are for the 52 weeks to 28 January 2023 (last year 52 weeks to 29 January 2022).

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities including the Group's principal risks and uncertainties. The Board also considered the Group's current cash position, the repayment profile of its obligations, its financial covenants and the resilience of its 12 month cash flow forecasts to a series of severe but plausible downside scenarios such as further enforced store closures. Having considered these factors the Board is satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the 52 weeks ended 28 January 2023 (see also the Going Concern and Viability Statements in the Annual Report and Accounts).

These policies have been consistently applied to all the years presented, unless otherwise stated.

## Basis of Consolidation

The consolidated financial statements incorporate the financial statements of NEXT plc (the "Company") and its subsidiary undertakings. Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Associates and joint ventures are all entities over which the Group has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control of those policies. Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the change in net assets of the associate or joint venture after the acquisition date.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

## Fair Value Measurement

The Group measures financial instruments such as derivatives and non-listed equity investments at fair value at each Balance Sheet date.

The fair value is the price that would have been received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described in Note 27.

## Foreign Currencies

The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and presentation currency. The Group includes foreign entities whose functional currencies are not Sterling. On consolidation, the assets and liabilities of those entities are translated at the exchange rates at the Balance Sheet date and income and expenses are translated at weighted average rates during the period. Translation differences are recognised in other comprehensive income.

Transactions in currencies other than an entity's functional currency are recorded at the exchange rate on the transaction date, whilst assets and liabilities are translated at exchange rates at the Balance Sheet date. Exchange differences are recognised in the Income Statement.

# GROUP ACCOUNTING POLICIES

## Revenue

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

It is the Group's policy to sell its products to the retail customer with a right to return within 28 days. During the temporary closure of stores caused by the COVID pandemic, this policy was adjusted to provide customers with the right to return within 28 days of the store reopening. The Group uses the expected value method to estimate the value of goods that will be returned because this method best predicts the amounts of variable consideration to which the Group will be entitled. A separate right of return asset is recognised on the face of the Balance Sheet which represents the right to recover product from the customer. The refund liability due to customers on return of their goods is recognised either as a component of trade payables and other liabilities (for cash payments) or as a deduction from customer receivables (for purchases using the nextpay credit facility).

Revenue from our Total Platform services is measured at the fair value of the consideration received or receivable and represents amounts receivable for the provision of services (for example the delivery of stock from the warehouse to retail stores) in the normal course of business, net of discounts, value added tax and other sales-related taxes.

The Group does not operate any loyalty programmes. Deferred income in relation to gift card redemptions is estimated on the basis of historical redemption rates. Revenue from gift cards is recognized when the customer redeems the gift card.

Online credit account interest is accrued on a time basis by reference to the principal outstanding, the provision held (where credit impaired) and the effective interest rate.

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

Where third-party goods are sold on a commission basis, only the commission receivable is included in statutory revenue. To aid comparability, "total sales" are disclosed in the Strategic Report and in Note 1 of the financial statements. Total sales includes the full customer sales value of commission based sales and interest income, excluding VAT.

## Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends (which include special dividends) are recorded in the period in which they are declared by the directors and paid.

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

## Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

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

Estimated useful lives are summarised as follows:

| | |
|---|---|
| Freehold and long leasehold property | 50 years |
| Plant and equipment | 6 – 25 years |
| Leasehold improvements | the period of the lease, or useful life if shorter |

## Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired. Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. Goodwill is not amortised, but is tested for impairment annually or whenever there is an indication of impairment. For the purposes of impairment testing, goodwill acquired is allocated to the Cash Generating Unit (CGU) that is expected to benefit from the synergies of the combination. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration paid in a business combination is measured at fair value with acquisition-related costs recognised in profit or loss as incurred. When the consideration paid includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

At the acquisition date, the identifiable assets liabilities acquired are recognised at their fair value, with the exception of any associated deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements which are recognised in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

## Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

## Software

Capitalised software costs include both external direct costs of goods and services, and internal payroll-related costs for employees who are directly associated with the software project.

Development costs are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it is available for use.
- Management controls and intends to complete the software for use in the business.
- There is an ability to use or sell the software.
- It can be demonstrated how the software will generate probable economic benefits in the future.
- Adequate technical, financial and other resources are available to complete the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between 3 and 5 years. Computer software under development is held at cost less any recognised impairment loss and presented as "asset under construction". Any impairment in value is recognised within the income statement.

## Other Intangible Assets

Other intangible assets relate to brand names, website domains and trademarks obtained on acquisition which were initially recognised at fair value. They are amortised on a straight-line basis over their expected useful lives of 5 – 15 years.

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

## Investments in subsidiaries (Parent Company only)

Investments in subsidiary companies (Parent Company only) are stated at cost, less any impairment.

## Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Whereas joint ventures are entities over which the Group has joint control over such policies.

The Group's share of the results of associates and joint ventures is included in the Group income statement and Group statement of comprehensive income using the equity method of accounting. Investments in associates and joint ventures are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any dividends received and impairment in value. If the Group's share of losses in an associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the associate or joint venture.

Dividends received from associates and joint ventures with nil carrying value are recognised in the Group income statement as part of the Group's share of post-tax profits/(losses) of associates and joint ventures. Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

# GROUP ACCOUNTING POLICIES

## Impairment – non-financial assets

The carrying values of non-financial assets (excluding goodwill) are reviewed quarterly to determine whether there is any indication of impairment. If any impairment loss arises, the asset value is adjusted to its estimated recoverable amount and the difference is recognised in the Income Statement. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. An asset's recoverable amount is the higher of an asset or Cash Generating Units (CGU's) fair value less costs of disposal and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

## Inventories

Inventories (stocks) are valued at the lower of standard cost or net realisable value. Standard cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to the present location and condition. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal. Where hedge accounting applies, an adjustment is applied such that the cost of stock reflects the hedged exchange rate.

## Financial instruments – initial recognition and subsequent measurement

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

### Financial assets

#### Initial recognition and measurement

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

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

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

| Financial assets | Classification under IFRS 9 |
|---|---|
| Derivatives not designated as hedging instruments | Fair value through profit or loss |
| Derivatives designated as hedging instruments | Fair value – hedging instrument |
| Preference shares | Amortised cost – hold to collect business model and SPPI met |
| Customer and other receivables | Amortised cost – hold to collect business model and SPPI met |
| Cash and short term deposits (excluding money market funds) | Amortised cost |
| Non-listed equity instruments | Fair value through profit or loss |

Under IFRS 9 the Group initially measures a financial asset at its fair value plus directly attributable transaction costs, unless the asset is classified as FVPL. Transaction costs of financial assets carried at FVPL are expensed in the Income Statement. Further details on the accounting for customer and other receivables is included in Note 13.

For details on hedge accounting refer to Note 28.

#### Subsequent measurement

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

| | |
|---|---|
| Financial assets at FVPL | Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | Subsequently measured at amortised cost using the effective interest rate (EIR) method. The amortised cost is reduced by impairment losses. Interest income, impairment or gain or loss on derecognition are recognised in profit or loss. |
| Equity instruments at FVPL | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents recovery of part of the cost of investment, in which case they are recognised in profit or loss. Other net gains and losses are recognised in profit and loss. |

## Financial instruments – initial recognition and subsequent measurement (continued)

### Derecognition

A financial asset is derecognised primarily when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third-party under a "pass-through" arrangement; and either a) the Group has transferred substantially all the risks and rewards of the asset, or b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- the Group has taken actions not to pursue collection, for example in instances of bankruptcy or individual voluntary arrangement.

### Impairment – financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. The most significant financial assets of the Group are its trade receivables, which are referred to as "customer and other receivables". ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate (EIR). For further details on the accounting for ECLs on customer and other receivables refer to Note 13.

## Financial liabilities

### Initial recognition and measurement

The Group has classified its financial liabilities as follows:

| Financial liabilities | Classification under IFRS 9 |
|---|---|
| Derivatives not designated as hedging instruments | Fair value through profit or loss |
| Derivatives designated as hedging instruments | Fair value – hedging instrument |
| Interest-bearing loans and borrowings: | |
| Corporate bonds | Amortised cost – designated in hedge relationships |
| Bank loans and overdrafts | Amortised cost |
| Trade and other payables | Amortised cost |

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

### Subsequent measurement

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

| | |
|---|---|
| Financial liabilities at FVPL | Subsequently measured at fair value. Gains and losses are recognised in the Income Statement. |
| Loans and borrowings | Subsequently measured at amortised cost using the EIR method. The EIR amortisation is included in finance costs in the Income Statement. |
| Corporate bonds | Subsequently measured at amortised cost and adjusted where hedge accounting applies (see interest rate derivatives on page 187). Accrued interest is included within other creditors and accruals. |

### Derecognition

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

## Offsetting of financial instruments

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

# GROUP ACCOUNTING POLICIES

## Customer and Other Receivables

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

### Impairment

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

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

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

ECL is the product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted at the original EIR. The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward looking aspect of IFRS 9 requires considerable judgement as to how changes in economic factors might affect ECLs. The ECL model applies four macroeconomic scenarios including a base case which is viewed by management to be the most likely outturn, together with an upside, downside and extreme scenario. A 40% weighting is applied to the base case and 30% to the upside scenario, 25% to the downside scenario and 5% to the extreme scenario.

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

Impairment charges in respect of customer receivables are recognised in the Income Statement within "Impairment losses on customer and other receivables".

Delinquency is taken as being in arrears and credit impaired is taken as being the loan has defaulted, which is considered to be the point at which the debt is passed to an internal or external Debt Collection Agency (DCA) and a default registered to a Credit Reference Agency (CRA), or any debt 90 days past due. Delinquency and default are relevant for the estimation of ECL, which segments the book by customer indebtedness, banded into 4 risk bands by arrears stage (See Note 28).

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

The key inputs into the ECL calculation are:

PD: "Probability of Default" is an estimate of the likelihood of default over the expected lifetime of the debt. NEXT has assessed the expected lifetime of customer receivables and other trade receivables, based on historical payment practices. The debt is segmented by arrears stage, Experian's Consumer Indebtedness Index (a measure of customers' affordability) and expected time of default.

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

LGD: "Loss Given Default" is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that NEXT would expect to receive, discounted at the original EIR. It is usually expressed as a percentage of the EAD. NEXT includes all cash collected over five years from the point of default.

The Group uses probability weighted economic scenarios that are integrated into the model, in order to evaluate a range of possible outcomes as is required by IFRS 9. An analysis of historical performance suggests that the expected performance of the book is most closely aligned to the forecast change in unemployment rate. However, management considers that the inputs and models used for the ECLs may not always capture all characteristics of the market at the Balance Sheet date. To reflect this qualitative adjustments or overlays are made, based on external data, historical performance and future expected performance.

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

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

The Group designates certain derivatives as either:

a. Hedges of fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

b. Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

## Hedge documentation

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

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

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

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

## Interest rate derivatives – fair value hedges

The Group uses interest rate derivatives to hedge part of the interest rate risk associated with the Group's corporate bonds. The carrying values of the relevant bonds are adjusted only for changes in fair value attributable to the interest rate risk being hedged. The adjustment is recognised in the Income Statement and is offset by movements in the fair value of the derivatives.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

# GROUP ACCOUNTING POLICIES

## Foreign currency derivatives – cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Income Statement. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency and option contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. Where forward contracts are used to hedge forecast transactions, the Group designates the change in fair value relating to both the spot and forward components as the hedging instrument. The ineffective portion relating to foreign currency contracts is recognised as other gains/losses in the Income Statement.

The fair value of option contracts are divided into two portions:

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

In accordance with IFRS 9 "Financial instruments", the Group designates the intrinsic value of foreign currency options as hedging instruments for hedging relationships entered into. The intrinsic value is determined with reference to the relevant spot market exchange rate. Changes in the time value of the options that relate to the hedged item are deferred in the cost of hedging reserve and recognised against the related hedge transaction when it occurs.

The amounts accumulated in the cash flow hedge reserve are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost for the carrying amount of the hedged asset or liability. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (e.g. when inventory impacts cost of sales). This is not a reclassification adjustment and will not be recognised in OCI for the period.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

## Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, credit card receipts and bank overdrafts. Amounts held in money market funds are held at fair value through the profit and loss and are valued using Level 1 inputs. Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet. Refer to Note 30 of the financial statements.

## Pension Arrangements

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

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

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

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

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

## Share-based Payments

The fair value of employee share options is calculated when they are granted using a Black-Scholes model and the fair value of equity-settled LTIP awards is calculated at grant using a Monte Carlo model. The resulting cost is charged in the Income Statement, as an employee benefit expense, over the vesting period of the option or award together with a corresponding increase in equity. The cumulative expense recognised is the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the Income Statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-service performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

No expense is recognised for awards that do not ultimately vest because of non-market performance and/or service conditions that have not been met. When awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are met.

The social security contributions payable in connection with the grant of the share options or LTIP award is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction. For cash-settled awards, the fair value of the liability is determined at each Balance Sheet date and the cost is recognised in the Income Statement over the vesting period.

## Taxation

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

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

Deferred tax is accounted for using the Balance Sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts. It is calculated using rates of taxation enacted or substantively enacted at the Balance Sheet date which are expected to apply when the asset or liability is settled.

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

Tax provisions are recognised when there is a potential exposure to an uncertain tax position. Management uses professional advisers and in-house tax experts to determine the amounts to be provided.

## Share Buybacks

The Group has regularly returned surplus cash to shareholders through share buybacks. Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable. The Company also uses contingent share purchase contracts and irrevocable closed period buyback programmes; the obligation to purchase shares is recognised in full at the inception of the contract, even when that obligation is conditional on the share price. Any subsequent reduction in the obligation caused by the expiry or termination of a contract is credited back to equity at that time. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## Shares Held by ESOT

The NEXT Employee Share Ownership Trust (ESOT) provides for the issue of shares to Group employees, principally under share option schemes. Shares in the Company held by the ESOT are included in the Balance Sheet at cost, including any directly attributable incremental costs, as a deduction from equity.

## Provisions

A provision is recognised where the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

# GROUP ACCOUNTING POLICIES

## Lease Accounting

### Group as lessee

At inception of a contract the Group assesses whether the contract is or contains a lease. A lease is present where the contract conveys, over a period of time, the right to control the use of an identified asset in exchange for consideration. Where a lease term ends and the Group remains within the site on holdover terms, the rental costs associated with this arrangement are recognised in the Income Statement as incurred.

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

### Lease liability – initial recognition

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

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is presented as a separate line in the Consolidated Balance Sheet, split between current and non-current liabilities.

### Lease liability – subsequent measurement

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

### Lease liability – remeasurement

The lease liability is remeasured where:

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

When the lease liability is remeasured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in profit or loss.

Where the lease liability is denominated in a foreign currency it is retranslated at the Balance Sheet date with foreign exchange gains and losses recognised in profit or loss.

### Right-of-use asset – initial recognition

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

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

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

### Right-of-use asset – subsequent measurement

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

# Lease Accounting (continued)

## Impairment

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment – non-financial assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

## Short term leases and low value assets

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

## The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

## Sale and leaseback

A sale and leaseback transaction is where the Group sells an asset and reacquires the use of the asset by entering into a lease with the counterparty. A sale is recognised when control of the underlying asset passes to the counterparty. The asset sold is derecognised and a lease liability and right-of-use asset recognised in relation to the lease. Any gain or loss arising on the transaction is recognised in the Income Statement and relates to the rights transferred to the counterparty.

# Government Grants

Grants are recognised only when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Grants that are receivable as compensation for expenses already incurred are recognised in profit or loss in the period in which they become receivable.

# GROUP ACCOUNTING POLICIES

## Climate change

In preparing the financial statements we have considered the potential impact of climate change. Given the identified risks are expected to be present in the medium to long term our focus has been on the non-current assets within the Balance Sheet.

Specifically, for the material non-current assets, we note the following:

- The plant, property and equipment associated with our stores have relatively short useful lives (in line with the store lease terms which average 5 years) and hence would not be at risk in the medium to long term. Furthermore, based on our current lease profile, we expect any potential future store refurbishments to be phased over several years and therefore any changes in the requirements associated with climate change would not have a material impact in any given year.
- For the right-of-use assets associated with our warehouse and head office, and the machinery in our new E3 warehouse, the risk from climate change is not considered material. The warehouse and head office sites are located in areas which we would not expect to be physically impacted by climate change while the risk of impairment on such assets, for example due to the introduction of environmental taxes, is considered remote given the strong operational margins generated by the Online business which they support.
- The intangible assets, which consist of goodwill, brands and internally generated software, are either fully recoverable or have a useful life less than 10 years and hence do not fall within the medium to long term risk profile. Hence, we would not expect the identified risks to impact these assets.
- The Associates, joint ventures and other investments comprise our equity investments. These businesses also operate in the retail and online fashion sector and consequently have a similar asset and risk profile to NEXT. There is no indication of any specific climate related risks to their assets or business that would represent a material risk to the carrying value of these investments.
- Defined benefit pension assets covering gilts, property based investments and equity investments are diverse and, in the context of the climate change horizons, relatively liquid. The pension scheme is therefore able to amend its investment portfolio and strategy within a relatively short time horizon to ensure its assets are not at material risk from climate change.

The other non-current assets were also reviewed and no risk identified. Current assets, by their nature, are expected to be fully utilised within the business in the short term and no climate risk has been identified in this time horizon.

As a consequence there has been no material impact on the financial reporting judgements and estimates applied in the preparation of the 2023 Annual Report and Accounts. Please see page 91 of the Annual Report and Accounts for further detail on our climate change assessment.

## Major Sources of Estimation Uncertainty and Judgement

The preparation of the financial statements requires estimates and assumptions to be made that affect the reported values of assets, liabilities, revenues and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

### Control implications of investment in Reiss

On 28 February 2022, NEXT exercised its option to acquire a further 26% indirect interest in Reiss Limited ("Reiss"). Upon review of the Shareholders' Agreement there are certain operational and financial matters which require joint agreement from all shareholders. Therefore, even though NEXT now holds 51% of the equity shares, management has formed a judgement that it does not have control over Reiss and so it has been accounted for as a joint venture.

In applying the Group's accounting policies described above, the directors have identified that the following areas are the key estimates that have a significant risk of resulting in a material adjustment to the carrying value of assets and liabilities in the next financial year.

### Defined benefit pension assumptions

The assumptions applied in determining the defined benefit pension obligation (Note 20), are particularly sensitive. Advice is taken from a qualified actuary to determine appropriate assumptions at each Balance Sheet date. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. A sensitivity analysis is shown in Note 20. In determining the appropriate discount rate, management considers the interest rates of high quality UK corporate bonds, with extrapolated maturities corresponding to the expected duration of the obligation. The mortality rate is based on publicly available mortality tables.

### Expected credit losses on Online customer and other receivables

The allowance for ECL (Note 13) is calculated on a customer-by-customer basis, using a combination of internally and externally sourced information, including expected future default levels (derived from historical defaults, overlaid by arrears and indebtedness profiles, and third party macro-economic forecasts) and future predicted cash collection levels (derived from past trends and future projections).

Prior to default, the greatest sensitivity relates to the ability of customers to afford their payments (impacting the Probability of Default (PD) and, to a lesser extent, the Exposure at Default (EAD)). Once a customer receivable has defaulted, there is limited sensitivity in expected recoveries due to the lack of significant variability in cash collection levels post default.

Of the total ECL (Note 28), £87.8m relates to defaulted debt (without significant uncertainty) and £114.7m is for non defaulted debt, where significant estimation uncertainty exists. The remainder of the section relates to non defaulted debt.

# Major Sources of Estimation Uncertainty and Judgement (continued)

## Expected credit losses on Online customer and other receivables (continued)

**Macroeconomic Uplift**

The first main area of major estimation uncertainty in calculating the ECL is the impact of a change in unemployment. Management uses an independent forecast of unemployment, provided by Experian, and weights the effect of the expected, low, high and extreme scenarios in the proportions 40/30/25/5. The expected scenario assumes a central unemployment rate peaking at 5.7% in Q4 2024. This weighted view adds £12.5m to the underlying model ECL.

If the extreme unemployment scenario was used instead (peaking at 9.6% in Q1 2025), this would add a further £18m of ECL. If the high unemployment scenario was used (peaking at 7.3% in Q1 2025), this would add a further £7m of ECL. Lastly, if the low unemployment scenario was used (peaking at 4.4% at Q4 2024), this would reduce the ECL by £7m.

The second main area of major estimation uncertainty in calculating the ECL is the impact that the current cost of living pressures may have on customer payment behaviour. In order to reflect the underlying risk in the loan book, the following factors have been incorporated into the provision:

***1) Downgrading the underlying base to the pre-COVID arrears and indebtedness profile***

The underlying distribution of arrears and consumer indebtedness scores from before the COVID pandemic have been overlaid on the ECL calculation in order to adjust recent performance trends. This is because the Consumer Indebtedness Index (CII) scores and the arrears profile of customers are key inputs in the underlying ECL model and management considers that the underlying risk characteristics have not yet returned to normalised levels. This adjustment, using pre-COVID arrears and indebtedness profiles, contributes £13.1m to the ECL.

***2) Recognition of the ongoing risk of an increased ECL for customers who have shown recent indicators of distress and are therefore considered to be at higher risk of default***

With the UK experiencing record levels of inflation, disposable income is likely to be further constricted as the effects of mortgage rate rises start to flow through into household budgets and energy bills remain elevated. Management believe this may adversely impact the recoverability of customer receivables, specifically customers who have previously shown signs of distress. A further overlay to increase the provision coverage of these customers to align with that of those customers in the highest risk banding (relating to their current arrears stage) has been applied, which forms £24.4m of the total ECL. We are not explicitly predicting that these customers will move towards a higher level of indebtedness (per the CII) but we are using this model mechanism to apply an appropriate and understood multiplier on the risk levels of these particular customers.

**Sensitivity to the Probability of Default**

Following application of the above two overlays, Management believes that there is adequate provision for ECL based on a stressed, but realistic level of payments. The primary area of estimation uncertainty which could have a material impact to the provision is the probability of default. Whilst considered unlikely, if the probability of default were to double, this would increase the provision by £28.2m .

In the five weeks following the year end date, £0.2bn of the £1.3bn NEXT customer and other trade receivables has been recovered.

## Other areas of estimation uncertainty and judgement

In addition, in applying the Group's accounting policies described above, the directors have identified the following areas as key estimates and judgements that relate to balances which the directors consider to be of particular importance to understanding the nature of the Balance Sheet. A significant change in these estimates could result in a *significant* (but not material) adjustment to the carrying value of assets and liabilities in the next financial year.

## Net realisable value of inventories

The selling prices of inventory are estimated to determine the net realisable value of inventory. Historical sales patterns and post year end trading performance are used to determine these. A 2% change in the volume of inventories going to clearance would impact the net realisable value by circa £6m. A 2% change in the level of markdown applied to the selling price would impact the value of inventories going to clearance by circa £8m.

# GROUP ACCOUNTING POLICIES

## Major Sources of Estimation Uncertainty and Judgement (continued)

### Impairment of right-of-use assets and property, plant and equipment

Property, plant and equipment and right-of-use assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable or a previous impairment should be reversed. Key triggers considered by management include store (i.e. CGU) sales varying significantly from previous forecasts, significant changes in the cost base (for example due to a rent review) and whether any new, wider economic factors may impact the forecast performance. When an impairment review is performed, the recoverable amount is based on the higher of the value in use and fair value less costs to sell. The value in use method requires the Group to apply assumptions in performing its assessment of future cash flows over the useful life of the asset. Key assumptions used are the Board approved budget for year 1, growth rate to be applied to the cash flows and the risk adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

The cash flow projections include assumptions on store performance throughout the remaining contractual lease term. In particular, the expected decline in like-for-like Retail sales in the budget for 2023/24 and the subsequent assumptions on our like-for-like Retail sales represent sources of significant estimation uncertainty. A future change to the assumption of sales growth would result in a reassessment of the value in use and could give rise to a significant change in the impairment recognised.

Retail store performance in the year has significantly exceeded management's previous expectations. This better than expected performance has informed management's view on the 2023/24 budget and following a review of CGU forecast performance, there has been a reversal of the previous impairment of £37.6m. Management's budget for 2023/24 assumes a year on year reduction in sales of -4.5% and then a longer term decline of -6% in line with the observed 3 year decline in the pre COVID period. A reduction in the forecast sales in the year 1 budget of -2%, with no subsequent changes to sales, would result in an increase in the impairment charge of circa £1m. A larger change of -4% would result in an increased impairment charge of circa £2m.

In the prior year the impairment charge had been significant. Accordingly a change in the discount rate applied to the impairment model would have resulted in a significant change in the impairment recognised. However, the remaining balance, following the reversal in the year, is now relatively low in value and hence a change in the discount rate no longer has a significant impact.

Management has assessed its online business to be a CGU. There have been no indicators in the current year or prior year of any impairment.

## Adoption of new accounting standards, interpretations and amendments

The Group has applied the following interpretations and amendments for the first time in these financial statements:

- Reference to Conceptual Framework – amendments to IFRS 3
- Property, Plant and Equipment – Proceeds before Intended Use – amendments to IAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – amendments to IAS 37
- Annual Improvements to IFRS Standards 2018-2020

The application of these new interpretations and amendments did not have a material impact on the financial statements.

Certain new accounting standards and interpretations have been published that are not yet effective and have not been adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## Alternative performance measures (APMs)

Management exercises judgement in determining the adjustments to apply to IFRS measurements in order to derive suitable APMs. As set out on pages 72 to 73, APMs are used as management believe these measures provide additional useful information on the trends, performance and position of the Group. These measures are used for performance analysis by the Board. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Segmental Analysis

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

The Property Management segment holds properties and property leases which are recharged to other segments and external parties. The International Retail, Sourcing and other segment comprises franchise and wholly owned stores overseas and our sourcing business. International online sales are included in the NEXT Online segment. Joules represents the results from the Joules business acquired in 2022.

Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. "Total Group Sales" represents the full customer sales value of commission based sales, interest income and service income, excluding VAT. Under IFRS 15 "Revenue from contracts with customers", total sales have also been adjusted for customer delivery charges, promotional discounts, Interest Free Credit commission costs and expired gift card balances (See "Other IFRS 15 adjustments" in the table overleaf). The CODM uses the Total Group sales as a key metric in assessing segment performance; accordingly, this is presented below and then reconciled to the statutory revenue.

### Segment analysis restatement

During the financial year to 28 January 2023, the segment revenue and profit used by the CODM changed as set out below:

1. **Lipsy**

   The Group had previously split the profit generated from selling Lipsy goods through the NEXT website between NEXT Online and the Lipsy division. Given all of Lipsy's online sales are reported within NEXT Online, the Group will now present all of these associated profits within NEXT Online and therefore for comparative purposes has restated segment sales and revenue and profit for the 52 weeks to 29 January 2022. This does not impact Group profit and is a change in presentation within this note only. Under the previous approach, prior to the restatement, the Lipsy profit was £27.1m (2022: £20.5m). As a result of this change:

   1) Segment profit for NEXT Online increases by £27.5m (2022: £18.0m).

   2) NEXT Finance profit increases by £11.7m (2022: £7.7m) as Lipsy previously received a benefit for its contribution towards the NEXT Finance business.

   3) International Retail, Sourcing and Other has an additional cost of £12.1m (2022: £5.2m).

   Lipsy's assets, capital expenditure and depreciation are included within NEXT Online.

2. **Total Platform**

   In the prior financial year, the financial performance of Total Platform was reported across two segments:

   (1) profit on sales was reported within NEXT Online; and

   (2) equity returns were reported separately within "Share of results of associates and joint venture".

   The Total Platform business has grown significantly in the last 12 months and therefore sales and profits will be presented within its own segment for better understanding of the performance of Total Platform. As a result, the prior year segment revenue and profits have been restated so that all Total Platform related profit is presented in its own segment. This has no impact on Group profit.

   As a result of this change:

   1) Total Platform segment reports profit of £19.3m (2022: £6.9m);

   2) NEXT Online's segment profit decreases by £5.1m (2022: £2.1m); and

   3) Profit shown in "Share of results of associates and joint ventures" decreases by £14.3m (2022: £4.8m).

   Total Platform's assets, capital expenditure and depreciation are reported within the NEXT Online segment as the assets are shared with the Online business.

In addition to the above we have aggregated NEXT International Retail and NEXT Sourcing and some residual Lipsy wholesale sales and central costs into a single line "International Retail, Sourcing and Other". None of these changes impact the overall Group operating profit as they relate to presentation and reclassifications only. Note that the profit impacts noted for Lipsy and Total Platform above are rounded to 0.1 decimal place.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Segmental Analysis (continued)

### Segment sales and revenue

| | 52 weeks to 28 January 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Total sales excluding VAT £m | Commission sales adjustment £m | Other IFRS 15 adjustments £m | External revenue £m | Internal revenue £m | Total segment revenue £m |
| NEXT Online | 3,006.6 | (329.2) | 66.2 | 2,743.6 | 0.6 | 2,744.2 |
| NEXT Finance | 274.4 | – | – | 274.4 | – | 274.4 |
| NEXT Retail | 1,865.1 | (17.1) | 1.1 | 1,849.1 | 0.4 | 1,849.5 |
| Total Trading Sales | 5,146.1 | (346.3) | 67.3 | 4,867.1 | 1.0 | 4,868.1 |
| Total Platform | 144.4 | (101.5) | – | 42.9 | – | 42.9 |
| Joules | 32.8 | – | – | 32.8 | – | 32.8 |
| Property Management | 18.9 | – | – | 18.9 | 156.1 | 175.0 |
| International Retail, Sourcing and other | 72.3 | – | – | 72.3 | 530.2 | 602.5 |
| Total segment sales/revenue | 5,414.5 | (447.8) | 67.3 | 5,034.0 | 687.3 | 5,721.3 |
| Eliminations | – | – | – | – | (687.3) | (687.3) |
| **Total** | 5,414.5 | (447.8) | 67.3 | 5,034.0 | – | 5,034.0 |

Included within external revenue is £123.7m (2022: £110.4m) related to sales made through the redemption of gift cards.

| | 52 weeks to 29 January 2022 *restated | | | | | |
|---|---|---|---|---|---|---|
| | Total sales excluding VAT £m | Commission sales adjustment £m | Other IFRS 15 adjustments £m | External revenue £m | Internal revenue £m | Total segment revenue £m |
| NEXT Online | 3,064.7 | (273.7) | 72.1 | 2,863.1 | – | 2,863.1 |
| NEXT Finance | 249.4 | – | – | 249.4 | – | 249.4 |
| NEXT Retail | 1,432.4 | (7.2) | 0.7 | 1,425.9 | 0.2 | 1,426.1 |
| Total Trading sales | 4,746.5 | (280.9) | 72.8 | 4,538.4 | 0.2 | 4,538.6 |
| Total Platform | 39.1 | (27.8) | – | 11.3 | – | 11.3 |
| Joules | – | – | – | – | – | – |
| Property Management | 12.7 | – | – | 12.7 | 167.3 | 180.0 |
| International Retail, Sourcing and other | 63.5 | – | – | 63.5 | 488.0 | 551.5 |
| Total segment sales/revenue | 4,861.8 | (308.7) | 72.8 | 4,625.9 | 655.5 | 5,281.4 |
| Eliminations | – | – | – | – | (655.5) | (655.5) |
| Total | 4,861.8 | (308.7) | 72.8 | 4,625.9 | – | 4,625.9 |

# 1. Segmental Analysis (continued)

## Segment profit

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 *Restated £m | *52 weeks to 29 January 2022 previously reported £m* |
|---|---|---|---|
| NEXT Online | **467.3** | 604.4 | 588.5 |
| NEXT Finance | **170.5** | 149.5 | 141.8 |
| NEXT Retail | **240.5** | 107.0 | 107.0 |
| Profit from Trading | **878.3** | 860.9 | 837.3 |
| Total Platform (including share of results from associates and joint ventures) | **19.3** | 6.9 | – |
| Joules | **(4.1)** | – | – |
| Lipsy | **–** | – | 20.5 |
| Property Management | **37.0** | 10.8 | 10.8 |
| International Retail, Sourcing and other | **28.1** | 28.5 | 33.7 |
| **Total segment profit** | **958.6** | 907.1 | 902.3 |
| Central costs and other | **(10.9)** | (15.2) | (15.2) |
| Recharge of interest | **34.4** | 30.9 | 30.9 |
| Share option charge | **(24.3)** | (19.9) | (19.9) |
| Unrealised foreign exchange (losses)/gains | **(16.3)** | 2.5 | 2.5 |
| Share of results of associates and joint ventures | **–** | – | 4.8 |
| **Operating profit** | **941.5** | 905.4 | 905.4 |
| Finance income | **5.7** | 4.2 | 4.2 |
| Finance costs | **(77.9)** | (86.5) | (86.5) |
| **Profit before tax** | **869.3** | 823.1 | 823.1 |

In the Chief Executive's Review the segment loss from Joules, adjusted to remove the non controlling interest, is presented as part of Total Platform.

Transactions between operating segments are made on an arm's length basis in a manner similar to those with third-parties. Segment revenue and segment profit include transactions between business segments which are eliminated on consolidation. The substantial majority of NEXT Sourcing's revenues and profits are derived from sales to NEXT Retail and NEXT Online. Further detail on the segment performance is provided in the Chief Executive's Review.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Segmental Analysis (continued)

### Segment assets, capital expenditure and depreciation

| | Property, plant, equipment and software | | Right-of-use assets | | Capital expenditure inc. software | | Depreciation and amortisation | |
|---|---|---|---|---|---|---|---|---|
| | 2023 £m | 2022 *restated £m | 2023 £m | 2022 *restated £m | 2023 £m | 2022 *restated £m | 2023 £m | 2022 *restated £m |
| NEXT Online | **445.1** | 337.5 | **132.8** | 94.9 | **144.9** | 130.8 | **46.8** | 36.3 |
| NEXT Finance | **–** | – | **–** | – | **–** | – | **–** | – |
| NEXT Retail | **205.7** | 213.2 | **521.0** | 534.6 | **63.6** | 50.3 | **168.0** | 181.1 |
| Joules | **8.3** | – | **–** | – | **0.5** | – | **1.1** | – |
| Property Management | **55.6** | 83.7 | **5.3** | 5.0 | **38.5** | 79.8 | **0.3** | (0.3) |
| International Retail, Sourcing and other | **1.5** | 2.0 | **2.9** | 4.6 | **0.6** | 1.0 | **3.8** | 3.6 |
| **Total** | **716.2** | 636.4 | **662.0** | 639.1 | **248.1** | 261.9 | **220.0** | 220.7 |

These assets are allocated based on the operations of the segment and the physical location of the asset. Impairment charges and reversals in relation to property, plant and equipment are included in the NEXT Retail segment.

Analyses of the Group's external revenues (by customer location) and non-current assets (by geographical location) are detailed below. Non current assets include plant, property and equipment and intangible assets. It does not include right-of-use assets (disclosed separately), investments, the deferred tax asset or financial assets.

| External revenue by geographical location | 2023 £m | 2022 £m |
|---|---|---|
| United Kingdom | **4,290.7** | 3,837.5 |
| Rest of Europe | **415.3** | 447.0 |
| Middle East | **235.6** | 247.0 |
| Asia | **48.5** | 53.0 |
| Rest of World | **43.9** | 41.4 |
| **Total** | **5,034.0** | 4,625.9 |

| Non-current assets by geographical location | 2023 £m | 2022 £m |
|---|---|---|
| United Kingdom | **746.6** | 644.5 |
| Rest of Europe | **3.5** | 3.5 |
| Middle East | **4.3** | 4.4 |
| Asia | **27.5** | 28.0 |
| **Total** | **781.9** | 680.4 |

| Right-of-use assets by geographical location | 2023 £m | 2022 £m |
|---|---|---|
| United Kingdom | **637.0** | 615.3 |
| Rest of Europe | **22.1** | 19.2 |
| Asia | **2.9** | 4.6 |
| **Total** | **662.0** | 639.1 |

## 2. Total Revenue

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

| | 52 weeks to 28 January 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Sale of goods £m | Credit account interest £m | Royalties £m | Rental income £m | Service income £m | Total £m |
| NEXT Online | **2,743.6** | – | – | – | – | **2,743.6** |
| NEXT Finance | – | **274.4** | – | – | – | **274.4** |
| NEXT Retail | **1,849.1** | – | – | – | – | **1,849.1** |
| Total Platform | **27.4** | – | – | – | **15.5** | **42.9** |
| Joules | **32.8** | – | – | – | – | **32.8** |
| Property Management | – | – | – | **18.9** | – | **18.9** |
| International Retail, Sourcing and other | **62.3** | – | **10.0** | – | – | **72.3** |
| **Total** | **4,715.2** | **274.4** | **10.0** | **18.9** | **15.5** | **5,034.0** |

| | 52 weeks to 29 January 2022*restated | | | | | |
|---|---|---|---|---|---|---|
| | Sale of goods £m | Credit account interest £m | Royalties £m | Rental income £m | Service income £m | Total £m |
| NEXT Online | 2,863.1 | – | – | – | – | 2,863.1 |
| NEXT Finance | – | 249.4 | – | – | – | 249.4 |
| NEXT Retail | 1,425.9 | – | – | – | – | 1,425.9 |
| Total Platform | 11.3 | – | – | – | – | 11.3 |
| Joules | – | – | – | – | – | – |
| Property Management | – | – | – | 12.7 | – | 12.7 |
| International Retail, Sourcing and other | 57.1 | – | 6.4 | – | – | 63.5 |
| Total | 4,357.4 | 249.4 | 6.4 | 12.7 | – | 4,625.9 |

Service income recognised in the current period relates to services provided to our Total Platform partners.

* As a result of the changes in how we report segmental profit per Note 1, segmental revenue has also been amended in the prior year with Lipsy's previously reported sale of goods of £2.2m being included within International Retail, Sourcing and Other and Lipsy royalties of £1.6m included within International Retail, Sourcing and other. Total Platform has been separated out into its own segment from NEXT Online.

## 3. Operating Profit

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

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| Depreciation on property, plant and equipment | **100.5** | 103.7 |
| Depreciation on right-of-use assets | **107.6** | 113.8 |
| Loss on disposal of property, plant and equipment | **0.5** | 3.1 |
| Gain on sale and leasebacks | **(17.7)** | (13.4) |
| Reversal of impairment on property, plant and equipment | **(2.7)** | (3.1) |
| Reversal of impairment on right-of-use assets | **(34.9)** | (1.2) |
| Amortisation and impairment of intangible assets | **12.5** | 4.3 |
| Gain on lease modifications, early exit and reassessed lease term | **(1.4)** | (3.8) |
| Variable rentals payable | **26.9** | 4.1 |
| Job Retention Scheme receipts | **–** | (16.2) |
| | | |
| Cost of inventories recognised as an expense | **1,785.4** | 1,674.6 |
| Write-down of inventories to net realisable value | **152.4** | 102.4 |
| **Total** | **1,937.8** | 1,777.0 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. Operating Profit (continued)

The Group has reviewed its store impairment models and its forecasts following identification of impairment triggers (being significant change in sales or significant change in cost base following rent reviews). As a result, where stores have performed significantly better than expected a net reversal of amounts previously impaired has been recognised of £34.9m (2022: £1.2m) on right-of-use assets and £2.7m (2022: £3.1m) on plant, property and equipment. This assessment involved a significant degree of estimation in order to determine the impairment required/reversed; refer to the Major Sources of Estimation Uncertainty and Judgement section with our Group Accounting Policies for further detail.

In the prior year the Group received funds of £16.2m associated with the Job Retention Scheme. These were recognised in cost of sales at £16.1m and distributions costs at £0.1m based on where the associated staff payroll costs are recognised. All receipts from the Job Retention Scheme were paid in full to staff on furlough. This has been recognised as a grant in accordance with the group's accounting policy.

Cost of inventories recognised as an expense consists of those costs which are directly attributable to goods sold in the year, including packaging and inbound freight costs.

Other gains/losses reported in the Income Statement represent foreign exchange losses of £16.3m (2022: gain of £2.5m) in respect of derivative contracts which do not qualify for hedge accounting under IFRS 9.

Other foreign exchange differences recognised in the Income Statement were gains of £9.6m (2022: gains of £3.9m).

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

| | **52 weeks to 28 January 2023 £000** | 52 weeks to 29 January 2022 £000 |
|---|---|---|
| *Auditors' remuneration* | | |
| Audit of the financial statements | **1,212** | 593 |
| Audit of subsidiaries | **110** | 431 |
| Total audit fees | **1,322** | 1,024 |
| Other assurance services | **106** | 72 |
| **Total** | **1,428** | 1,096 |

The year on year increase in audit fees reflects the increased complexity of the Group and the compliance costs associated with audits and the increased complexity of the business. Other assurance services relate to assurance work on Corporate Responsibility reporting.

# 4. Staff Costs and Key Management Personnel

Total staff costs were as follows:

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| Wages and salaries | **772.3** | 703.2 |
| Social security costs | **62.3** | 50.0 |
| Other pension costs | **43.7** | 42.0 |
| | **878.3** | 795.2 |
| Share-based payment expense – equity settled | **24.3** | 19.9 |
| Share-based payment expense – cash settled | **–** | (0.2) |
| **Total** | **902.6** | 814.9 |

Share-based payments comprise Management, Sharesave and Share Matching Plan options and LTIP share awards, details of which are given in Note 24.

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

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 restated* £m |
|---|---|---|
| NEXT Online, Retail and Finance | **857.3** | 766.2 |
| NEXT International Retail and Sourcing | **30.5** | 35.4 |
| Joules | **4.9** | – |
| Other activities | **9.9** | 13.3 |
| **Total** | **902.6** | 814.9 |

* As explained in Note 1 Segment Analysis, the Lipsy segment has been consolidated within NEXT Online. For the purpose of this note, Total Platform has been included within NEXT Online. Therefore the prior year staff costs has been restated to reflect this change in segments. This change has no impact on the Group's total staff costs.

| | Average employees | | Full-time equivalents | |
|---|---|---|---|---|
| | 2023 Number | 2022 *restated Number | 2023 Number | 2022 *restated Number |
| NEXT Online, Retail and Finance | **42,168** | 38,780 | **27,889** | 22,581 |
| NEXT International Retail and Sourcing | **4,224** | 4,178 | **4,224** | 4,178 |
| Joules | **241** | – | **140** | – |
| Other activities | **77** | 82 | **71** | 77 |
| **Total** | **46,710** | 43,040 | **32,324** | 26,836 |

* The prior year average employees and full-time equivalents have been restated following a change in how Lipsy is reported within the operating segments of the Group. See Note 1 for more details. In addition, staff associated with Total Platform also perform services for NEXT Online, Retail and Finance above.

The aggregate amounts charged in the financial statements for key management personnel (including employer's National Insurance contributions), being the directors of NEXT plc, were as follows:

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| Short term employee benefits | **5.1** | 6.0 |
| Share-based payments | **2.8** | 3.6 |
| **Total** | **7.9** | 9.6 |

Directors' remuneration is detailed in the Remuneration Report.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. Finance Income and Costs

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| Interest on bank deposits | **0.1** | 0.6 |
| Other interest receivable | **5.6** | 3.6 |
| **Finance income** | **5.7** | 4.2 |
| | | |
| Interest on bonds and other borrowings | **30.6** | 36.1 |
| Finance costs on lease liability | **47.3** | 50.4 |
| **Finance costs** | **77.9** | 86.5 |

Other interest receivable includes interest income on preference shares of £4.8m (2022: £2.4m) and amounts accrued on loans to associates and joint ventures. Online account interest is presented as a component of revenue.

## 6. Taxation

### Tax charge for the period

Our tax charge for the period is shown below. Tax is made up of current and deferred tax. Current tax is the amount payable on the taxable income in the period and any adjustments to tax payable in previous years. Deferred tax is explained on page 189.

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| *Current tax:* | | |
| Current tax on profits for the year | **137.9** | 123.2 |
| Adjustments in respect of prior years | **17.7** | 11.6 |
| Total current tax | **155.6** | 134.8 |
| | | |
| *Deferred tax:* | | |
| Origination and reversal of temporary differences | **17.7** | 20.7 |
| Adjustments in respect of prior years | **(14.7)** | (9.9) |
| Total deferred tax | **3.0** | 10.8 |
| | | |
| **Tax expense reported in the Consolidated Income Statement** | **158.6** | 145.6 |

The adjustments in respect of prior years relate to timing on the recognition of amounts claimed as capital allowances. The prior year adjustments in 2022 related to amounts of capital gains on which rollover relief was claimed and the gains have been recognised.

### Factors affecting the tax charge in the period

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

| | 52 weeks to 28 January 2023 % | 52 weeks to 29 January 2022 % |
|---|---|---|
| UK corporation tax rate | **19.0** | 19.0 |
| Non–taxable income | **(0.5)** | – |
| Non deductible expenses | **0.6** | – |
| Capital losses utilised | **(0.2)** | – |
| Overseas tax | **(0.6)** | – |
| Adjustments in respect of prior years | **0.4** | – |
| Revaluation of deferred tax asset | **–** | (0.6) |
| Benefit as a result of capital allowance 130% deduction | **(0.4)** | (0.7) |
| **Total** | **18.3** | 17.7 |

# 6. Taxation (continued)

## Tax recognised in other comprehensive income and equity

In addition to the amount charged to the Income Statement, tax movements recognised in other comprehensive income and in equity were as follows:

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| *Deferred tax:* | | |
| Pension benefit obligation | **0.1** | 13.8 |
| Fair value movements on derivative instruments | **19.7** | 7.2 |
| **Tax charge in other comprehensive income** | **19.8** | 21.0 |

| | 52 weeks to 28 January 2023 £m | 52 weeks to 29 January 2022 £m |
|---|---|---|
| *Current tax:* | | |
| Share-based payments | **(1.2)** | (7.3) |
| *Deferred tax:* | | |
| Fair value movements on derivative instruments | **(30.1)** | 4.0 |
| Share-based payments | **5.4** | 0.2 |
| **Total tax credit in the Statement of Changes in Equity** | **(25.9)** | (3.1) |

## Deferred tax

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences that arise when the carrying value of assets and liabilities differ between accounting and tax treatments. Deferred tax assets represent the amounts of income taxes recoverable in the future in respect of those differences, while deferred tax liabilities represent the amounts of income taxes payable in the future in respect of those differences.

The deferred tax asset is made up of:

| | Accelerated capital allowances £m | Derivatives to fair value £m | Pension benefit obligation £m | Share-based payments £m | IFRS 16 leases £m | Other temporary differences £m | Total £m |
|---|---|---|---|---|---|---|---|
| **At January 2021** | 23.5 | 5.2 | (15.9) | 20.9 | 34.7 | 2.0 | **70.4** |
| Recognised in: | | | | | | | |
| – Income Statement | (15.0) | (0.6) | (6.5) | 0.4 | 1.5 | 9.0 | **(11.2)** |
| – Other Comprehensive Income | – | (7.2) | (13.8) | – | – | – | **(21.0)** |
| – Statement of Changes in Equity | – | (4.0) | – | (0.2) | – | – | **(4.2)** |
| **At January 2022** | 8.5 | (6.6) | (36.2) | 21.1 | 36.2 | 11.0 | **34.0** |
| Recognised in: | | | | | | | |
| – Income Statement | (2.5) | 4.1 | (1.5) | 0.8 | (2.6) | (1.3) | **(3.0)** |
| – Other Comprehensive Income | – | (19.7) | (0.1) | – | – | – | **(19.8)** |
| – Statement of Changes in Equity | – | 30.1 | – | (5.4) | – | – | **24.7** |
| Acquisition of subsidiary | – | – | – | – | – | (2.6) | **(2.6)** |
| **At January 2023** | **6.0** | **7.9** | **(37.8)** | **16.5** | **33.6** | **7.1** | **33.3** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. Taxation (continued)

### Deferred tax (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. No recognition has been made of the following deferred tax assets:

| | Unrecognised Gross value 2023 £m | Unrecognised Deferred tax 2023 £m | Unrecognised Gross value 2022 £m | Unrecognised Deferred tax 2022 £m |
|---|---|---|---|---|
| Capital losses | **18.6** | **4.7** | 31.0 | 7.8 |

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

### Factors affecting tax charges in future years

Deferred taxes reflected in these financial statements have been measured using the enacted tax rates at the Balance Sheet date. Following on from the Budget of 3 March 2021 the UK corporation tax rate will change effective April 2023 from 19% to 25%. As a result, deferred tax balances have been measured at the rate at which they are expected to unwind in the future, either 24% or 25% depending on the timing.

Provisions, which are immaterial to the financial statements, have been recognised in relation to uncertain tax positions. These relate to the interpretation of tax legislation, including changes arising from the OECD's Base Erosion and Profit Shifting project, which impact our NEXT Sourcing operation in its ordinary course of business.

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

## 7. Dividends

| **Year to 28 January 2023** | **Paid** | **Pence per share** | **Cash Flow Statement £m** | **Statement of Changes in Equity* £m** |
|---|---|---|---|---|
| Final ordinary dividend for the year to Jan 2022 | 1 Aug 2022 | **127p** | **156.5** | **156.5** |
| Interim ordinary dividend for the year to Jan 2023 | 3 Jan 2023 | **66p** | **80.9** | **80.9** |
| | | | **237.4** | **237.4** |

| Year to 29 January 2022 | Paid | Pence per share | Cash Flow Statement £m | Statement of Changes in Equity £m |
|---|---|---|---|---|
| Special interim dividend | 3 Sep 2021 | 110p | 140.3 | 140.3 |
| Special interim dividend | 28 Jan 2022 | 160p | 204.2 | 204.2 |
| | | | 344.5 | 344.5 |

* Dividends included within the Statement of Changes in Equity is £237.1m which includes £0.3m of dividends previously payable and have now lapsed.

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

It is intended that an ordinary dividend of 140.0p per share will be paid to shareholders on 1 August 2023. NEXT plc shares will trade ex-dividend from 6 July 2023 and the record date will be 7 July 2023. The estimated amount payable is £173m. The proposed dividend is subject to approval by shareholders at the Annual General Meeting to be held on 18 May 2023 and has not been included as a liability in the financial statements.

# 8. Earnings Per Share

| | 52 weeks to 28 January 2023 | 52 weeks to 29 January 2022 |
|---|---|---|
| **Basic Earnings Per Share** | **573.4p** | 530.8p |
| **Diluted Earnings Per Share** | **570.5p** | 524.0p |
| **Fully diluted Earnings Per Share** | **544.5p** | 505.8p |

Basic Earnings Per Share is based on the profit for the period 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.

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 3,112,796 non-dilutive share options in the current year (2022: 1,474,577).

Fully diluted Earnings Per Share is based on the weighted average number of shares used for the calculation of basic Earnings Per Share, increased by the weighted average total employee share options outstanding during the period. Fully diluted Earnings Per Share is an Alternative Performance Measure (APM) used for the purposes of the Share Matching Plan, described further in Note 24.

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

| | 52 weeks to 28 January 2023 | 52 weeks to 29 January 2022 |
|---|---|---|
| **Profit after tax attributable to equity holders of the Parent Company (£m)** | **711.7** | 677.5 |
| **Weighted average number of shares (millions)** | | |
| Weighted average shares in issue | **130.2** | 132.9 |
| Weighted average shares held by ESOT | **(6.1)** | (5.3) |
| **Weighted average shares for basic EPS** | **124.1** | 127.6 |
| Weighted average dilutive potential shares | **0.6** | 1.7 |
| **Weighted average shares for diluted EPS** | **124.7** | 129.3 |
| Weighted average total options outstanding | **6.6** | 6.3 |
| **Weighted average shares for fully diluted EPS** | **130.7** | 133.9 |

As detailed in the Remuneration Report, the 2022/23 annual bonus for executive directors was determined by reference to NEXT Group pre-tax Earnings per Share, adjusted to remove the impact of share buy backs not included in the original target metrics, of 687.2p (2022: 637.4p). The NEXT Profit before tax on a 52 week basis of £870.4m (2022: £813.5m), is divided by the net of the weighted average number of shares in issue less the weighted average number of shares held by the ESOT during the period. A definition of NEXT Profit before tax and NEXT Group pre-tax earnings per share is included in the Glossary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. Property, Plant and Equipment

| | Freehold property £m | Leasehold property £m | Plant and equipment £m | Assets under the course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At January 2021** | **6.8** | **2.7** | **1,917.6** | **–** | **1,927.1** |
| Exchange movement | – | – | (3.5) | – | (3.5) |
| Additions | 28.3 | – | 157.0 | 53.9 | 239.2 |
| Disposals | (8.3) | (0.1) | (102.1) | – | (110.5) |
| **At January 2022** | **26.8** | **2.6** | **1,969.0** | **53.9** | **2,052.3** |
| Exchange movement | – | – | 0.6 | – | 0.6 |
| Arising from acquisitions | – | – | 1.1 | – | 1.1 |
| Additions | 13.2 | – | 168.6 | 25.3 | 207.1 |
| Reclassification from assets under the course of construction | 64.7 | – | – | (64.7) | – |
| Disposals | (64.9) | (1.3) | (53.6) | – | (119.8) |
| **At January 2023** | **39.8** | **1.3** | **2,085.7** | **14.5** | **2,141.3** |
| **Depreciation** | | | | | |
| **At January 2021** | **0.4** | **0.1** | **1,451.8** | **–** | **1,452.3** |
| Exchange movement | – | – | (3.4) | – | (3.4) |
| Provided during the year | 0.1 | – | 103.6 | – | 103.7 |
| Impairment charge | – | – | (3.1) | – | (3.1) |
| Disposals | (0.1) | – | (98.2) | – | (98.3) |
| **At January 2022** | **0.4** | **0.1** | **1,450.7** | **–** | **1,451.2** |
| Exchange movement | – | – | 0.7 | – | 0.7 |
| Provided during the year | 0.1 | – | 100.4 | – | 100.5 |
| Net impairment release | – | – | (2.7) | – | (2.7) |
| Disposals | – | – | (53.2) | – | (53.2) |
| **At January 2023** | **0.5** | **0.1** | **1,495.9** | **–** | **1,496.5** |
| **Carrying amount** | | | | | |
| **At January 2023** | **39.3** | **1.2** | **589.8** | **14.5** | **644.8** |
| At January 2022 | 26.4 | 2.5 | 518.3 | 53.9 | 601.1 |
| At January 2021 | 6.4 | 2.6 | 465.8 | – | 474.8 |

At January 2023 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £33.7m (2022: £96.7m). Plant and equipment includes leasehold improvements.

Additions to assets under the course of construction relate to the build of the Dearne Valley warehouse extension. The assets under the course of construction in the prior year related to the build of the E3 warehouse which was completed during the current financial year.

See Note 3 for further detail on impairment charges.

## 10. Intangible Assets

| | Goodwill £m | Brand names and trademarks £m | Software £m | Software assets under the course of construction £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At January 2021** | **45.7** | **4.3** | **2.1** | **14.4** | **66.5** |
| Additions | – | – | 7.6 | 15.1 | 22.7 |
| Reclassified from assets under the course of construction | – | – | 2.9 | (2.9) | – |
| **At January 2022** | **45.7** | **4.3** | **12.6** | **26.6** | **89.2** |
| Additions | – | – | 25.5 | 15.5 | 41.0 |
| Arising from acquisitions | 11.6 | 10.5 | 7.4 | – | 29.5 |
| Reclassified from assets under the course of construction | – | – | 18.3 | (18.3) | – |
| Disposals | – | – | (0.5) | – | (0.5) |
| **At January 2023** | **57.3** | **14.8** | **63.3** | **23.8** | **159.2** |
| | | | | | |
| **Amortisation and Impairment** | | | | | |
| **At January 2021** | **1.6** | **4.1** | **0.3** | **–** | **6.0** |
| Amortisation provided during the year | – | 0.1 | 3.1 | – | 3.2 |
| Impairment | 0.2 | – | 0.5 | – | 0.7 |
| **At January 2022** | **1.8** | **4.2** | **3.9** | **–** | **9.9** |
| Amortisation provided during the year | – | 0.4 | 11.5 | – | 11.9 |
| Impairment | – | – | 0.6 | – | 0.6 |
| Disposals | – | – | (0.3) | – | (0.3) |
| **At January 2023** | **1.8** | **4.6** | **15.7** | **–** | **22.1** |
| | | | | | |
| **Carrying amount** | | | | | |
| **At January 2023** | **55.5** | **10.2** | **47.6** | **23.8** | **137.1** |
| At January 2022 | 43.9 | 0.1 | 8.7 | 26.6 | 79.3 |
| At January 2021 | 44.1 | 0.2 | 1.8 | 14.4 | 60.5 |

Assets under the course of construction relate to internally developed software that is not yet complete. Once complete it will be transferred to "software" and amortised over its useful economic life (see Group Accounting Policies for more detail).

Intangible assets arising from acquisitions in the year relate to the acquisition of Joules brand name and trade marks for £10.5m, goodwill arising from the acquisition of £11.6m and software intangibles of £7.4m.

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

| | 2023 £m | 2022 £m |
|---|---|---|
| NEXT Sourcing | **30.5** | 30.5 |
| Lipsy | **12.1** | 12.1 |
| NEXT Beauty | **1.3** | 1.3 |
| Joules | **11.6** | – |
| **Total** | **55.5** | 43.9 |

Goodwill is tested for impairment at the balance sheet date on the basis of value in use calculations. The assumptions and basis for the impairment testing on the significant goodwill balances is set out below.

### NEXT Sourcing

The key assumptions in testing the goodwill for impairment are the future sourcing requirements of the Group and the ability of NEXT Sourcing to meet these requirements based on past experience. In assessing value in use, budgets for the next year were used and extrapolated for nine further years using a growth rate of 0% (2022: 0% growth rate) and discounted at a pre-tax rate of 8% (2022: 8%).

### Lipsy

The key assumptions in testing the goodwill for impairment are the forecast sales for the Lipsy products, particularly through the NEXT website. In assessing the recoverable amount of goodwill, internal budgets for next year were used and extrapolated for nine further years using a growth rate of 2% (2022: 2%) and discounted at a pre-tax rate of 8% (2022: 8%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Leases

The right-of-use assets are comprised of:

| | 2023 £m | 2022 £m |
|---|---|---|
| Buildings | **228.0** | 193.0 |
| Stores | **420.5** | 433.5 |
| Equipment | **1.2** | 2.0 |
| Vehicles | **12.3** | 10.6 |
| **Total** | **662.0** | 639.1 |

The right-of-use assets movement in the year is as follows:

| | 2023 £m | 2022 £m |
|---|---|---|
| At the beginning of the year | **639.1** | 720.1 |
| Additions | **58.2** | 27.8 |
| Disposals | **(4.0)** | (6.0) |
| Modifications and amendments | **41.4** | 9.2 |
| Depreciation | **(107.6)** | (113.8) |
| Reversal of impairment | **34.9** | 1.8 |
| **At the end of the year** | **662.0** | 639.1 |

Additions to right-of-use assets include new leases and new contracts for leases previously on hold over.

The income from subleasing right-of use assets under operating leases is £18.7m (2022: £12.6m).

The lease liability movement in the year is as follows:

| | 2023 £m | 2022 £m |
|---|---|---|
| At the beginning of the year | **(1,057.5)** | (1,185.9) |
| Additions | **(84.2)** | (41.2) |
| Modifications and amendments | **(41.5)** | (12.9) |
| Payments | **204.4** | 222.7 |
| Interest | **(47.3)** | (50.4) |
| Disposals | **5.5** | 9.5 |
| Foreign exchange movement | **(2.7)** | 0.7 |
| **At the end of the year** | **(1,023.3)** | (1,057.5) |

Amounts recognised in the Consolidated Income Statement include:

| **Depreciation on right-of-use assets** | 2023 £m | 2022 £m |
|---|---|---|
| Buildings | **19.7** | 17.6 |
| Stores | **83.3** | 91.3 |
| Equipment | **0.7** | 1.3 |
| Vehicles | **3.9** | 3.6 |
| **Total** | **107.6** | 113.8 |

| | 2023 £m | 2022 £m |
|---|---|---|
| Finance costs on leases | **(47.3)** | (50.4) |
| Expense on short term and low value leases | **(4.0)** | (3.5) |
| Expense on variable leases | **(26.9)** | (4.1) |
| Gain on sale and leasebacks | **17.7** | 13.4 |

During the prior year, the Group entered into a sale and leaseback transaction in respect of our Elmsall 3 warehouse construction. As a result of this transaction, the Group received total proceeds of £114.6m and recognised a gain of £17.8m (of which £7.0m was recognised in the prior year) within administrative expenses. The gain has been recognised in relation to the performance obligations under the contract and reflects the proportion of the asset not retained in the future lease and is a proportion of the total gain expected on the sale and leaseback transaction. The Group also received cash proceeds of £10m in respect of two smaller sale and leaseback transactions which gave rise to a net gain of £6.9m.

## 11. Leases (continued)

Of the total proceeds received in the year of £101.0m, £41.7m of the proceeds (being the portion of the assets sold and not subject to the leaseback) have been classified within investing activities. The remaining sale and leaseback proceeds of £59.3m, relating to the asset being leased back, are presented within financing activity.

See Note 3 for further detail on impairment charges.

## 12. Associates, Joint Ventures and Other Investments

| | Interest in associates and joint ventures £m | Other investments £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| **At January 2021** | **4.3** | **1.0** | **5.3** |
| Additions | 34.3 | – | 34.3 |
| Retained profit | 4.8 | – | 4.8 |
| Interest on preference shares | 2.4 | – | 2.4 |
| **At January 2022** | **45.8** | **1.0** | **46.8** |
| Additions | 64.7 | 1.9 | 66.6 |
| Retained profit | 14.3 | – | 14.3 |
| Interest on preference shares | 4.8 | – | 4.8 |
| Preference share dividend received | (9.8) | – | (9.8) |
| Divestment of preference shares | (5.5) | – | (5.5) |
| Disposal of investment | – | (1.0) | (1.0) |
| **At January 2023** | **114.3** | **1.9** | **116.2** |
| | | | |
| **Amortisation/Impairment** | | | |
| **At January 2021** | **0.3** | **–** | **0.3** |
| Provided during the year | 0.3 | – | 0.3 |
| **At January 2022** | **0.6** | **–** | **0.6** |
| Provided during the year | 0.3 | – | 0.3 |
| Impairment charge in the year | 0.7 | – | 0.7 |
| **At January 2023** | **1.6** | **–** | **1.6** |
| | | | |
| **Carrying amount** | | | |
| **At January 2023** | **112.7** | **1.9** | **114.6** |
| At January 2022 | 45.2 | 1.0 | 46.2 |
| At January 2021 | 4.0 | 1.0 | 5.0 |

On 28 February 2022, NEXT exercised its option to acquire a further 26% indirect interest in Reiss Limited ("Reiss"). Upon completion in May 2022, NEXT acquired the 26% for £45.3m financed from NEXT's own cash resources. Although NEXT now holds a 51% equity share, it does not have control of Reiss' operational and financial activities and therefore has been treated as a joint venture.

The finance income relates to interest on NEXT's share of preference shares in the Reiss group's ultimate holding company. This has been recognised within the Finance income line of the Income Statement.

In addition, in March 2022, NEXT acquired a 25% equity stake in Swoon Limited for a cash consideration of £3.5m, and in April 2022, a 44% equity stake in the holding company of JoJo Maman Bébé Limited for a total cash consideration of £15.9m. In both cases NEXT has significant influence, but not control, over the investments' operational and financial activities and therefore they have been treated as associates.

During the year, NEXT also acquired a 19.9% stake in the holding company of Sealskinz Limited for £1.9m comprising ordinary shares and preference shares. For this acquisition, NEXT does not have significant influence and therefore the investment in ordinary shares has been accounted for as financial assets at fair value through profit or loss and the preference shares are financial assets measured at amortised cost within this note.

Additions in the prior period to January 2022 relate to the considerations paid for the initial 25% indirect interest in Reiss Limited ("Reiss"), a 33% direct interest in Aubin and Wills Holdings Limited and a 51% joint venture arrangement with Gap, Inc., West Apparel Limited. West Apparel Limited is treated as a joint venture as NEXT has joint control of its operations and financial activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12. Associates, Joint Ventures and Other Investments (continued)

### Details of material associates and joint ventures

Set out below are the material associates and joint ventures of the Group as at 28 January 2023. The entities listed below have share capital consisting of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business with the exception of Reiss (see below), and the proportion of ownership interest is the same as the proportion of voting rights held.

| Name of entity | Investment type | % ownership 2023 % | 2022 % | Nature of relationship | Measurement method | Carrying amount 2023 £m | 2022 £m |
|---|---|---|---|---|---|---|---|
| Pink Topco Limited* (Reiss) | Ordinary shares | **51%** | 25% | Joint venture | Equity | **17.3** | 2.0 |
| Pink Topco Limited* (Reiss) | Preference shares | **51%** | 25% | Joint venture | Amortised cost | **61.2** | 35.1 |
| Regent Bidco 1 Limited** (JoJo Maman Bébé) | Ordinary shares | **44%** | – | Associate | Equity | **16.2** | – |
| Immaterial associates and joint ventures | | | | | | **18.0** | 8.1 |
| | | | | | | **112.7** | 45.2 |

* Pink Topco Limited is the parent company for the Reiss Group which designs and retails high quality women's and men's fashion clothing and accessories. Its product range complements the Group's customer offering within stores and online. Its registered office is 22 Grenville Street, St Helier, Jersey JE4 8PX and its principal place of business is REISS Building, 12 Picton Place, London W1U 1BW.

** Regent Bidco 1 Limited is the parent company of the JoJo Maman Bébé Group which designs and sells high-quality maternity, baby and children's clothing, nursery products, gifts and toys. The business trades via omni-channel retail direct to consumers in the UK and Ireland and via wholesale and ecommerce sales internationally. Its registered office is % Alter Domus (Uk) Limited, 10th Floor, 20 St Mary Axe, London EC3A 8BF and its principal place of business is Unit A Oxwich Road, Reevesland Industrial Estate, Newport, Gwent NP19 4PU.

The table below provides the summarised profit and loss and balance sheet for Reiss and JoJo Maman Bébé. The information disclosed reflects the amounts presented in the consolidated financial statements of Reiss and JoJo Maman Bébé amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

| | Reiss* 2023 £m | Reiss* 2022 £m | JoJo Maman Bébé 2023 £m | JoJo Maman Bébé 2022 £m |
|---|---|---|---|---|
| Sales | **325.2** | 236.1 | **58.6** | – |
| Profit after tax | **9.0** | 7.0 | **0.7** | – |
| Group's share in % | **51.0%** | 25.0% | **44.0%** | – |
| Group share in £'m | **6.8** | 1.8 | **0.3** | – |
| | | | | |
| Total non–current assets | **176.4** | 194.1 | **32.0** | – |
| Total current assets | **85.2** | 99.8 | **22.5** | – |
| Total current liabilities | **(75.7)** | (60.2) | **(11.8)** | – |
| Total non–current liabilities | **(211.8)** | (268.7) | **(18.0)** | – |
| **Net assets/(liabilities)** | **(25.9)** | (35.0) | **24.7** | – |
| | | | | |
| Group share in % | **51.0%** | 25.0% | **44.0%** | – |
| Group share in £m | **(13.2)** | (8.8) | **10.9** | – |
| Goodwill | **30.5** | 10.8 | **5.3** | – |
| **Carrying amount** | **17.3** | 2.0 | **16.2** | – |

* Due to the exercise of the option, the Group's share of Reiss' profit is calculated at 25% for the first 3 months of the year and then at 51% for the remainder of the year.

In addition to the above as at 28 January 2023, Reiss had cash and cash equivalents of £18.0m (2022: £49.0m) and current financial liabilities (excluding trade and other payables and provisions) of £nil (2022: £nil) and non-current financial liabilities of £120.4m (preference shares). Included within their income statement were depreciation and amortisation of £26.5m (2022: £22.0m), interest income of £nil (2022: £nil), interest expense of £14.1m (2022: £12.3m).

There are no other profits or losses from discontinued operations or other comprehensive income from the Group's investments in associates and joint ventures other than the amounts already disclosed above.

### Aggregate information of associates and joint ventures that are not individually material

The aggregate carrying amount of the individually immaterial associates and joint ventures is £18.0m (2022: £8.1m) with the Group's share of their profit from continuing operations in the current period being £7.2m (2022: £3.0m).

## 13. Customer and Other Receivables

The following table shows the components of net receivables.

| | 2023 £m | 2022 £m |
|---|---|---|
| Gross customer receivables | **1,521.1** | 1,403.3 |
| Less: refund liabilities | **(64.2)** | (49.4) |
| Net customer receivables | **1,456.9** | 1,353.9 |
| Less: allowance for expected credit losses | **(202.2)** | (191.2) |
| | **1,254.7** | 1,162.7 |
| Other trade receivables | **42.9** | 24.9 |
| Less: allowance for doubtful debts | **(0.3)** | (0.5) |
| | **1,297.3** | 1,187.1 |

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

| | 2023 £m | 2022 £m |
|---|---|---|
| Net customer receivables | **1,456.9** | 1,353.9 |
| Other trade receivables | **42.9** | 24.9 |
| | **1,499.8** | 1,378.8 |
| Less: allowance for expected credit losses and doubtful debts | **(202.5)** | (191.7) |
| | **1,297.3** | 1,187.1 |
| Prepayments | **54.9** | 53.1 |
| Other debtors | **40.7** | 14.1 |
| Amounts due from associates and joint ventures | **32.6** | 26.6 |
| | **1,425.5** | 1,280.9 |

No interest is charged on customer receivables if the statement balance is paid in full and to terms; otherwise balances bear interest at a variable annual percentage rate of 23.9% (2022: 23.9%) at the year-end date, except for £54.8m (2022: £40.6m) of next3step balance which bears interest at 29.9% (2022: 29.9%) at the year end date.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, other trade receivables have been allocated to the Risk band 1 (defined in Note 28), representing management's view of the risk and the days past due. The expected credit losses incorporate forward looking information.

The fair value of customer receivables and other trade receivables is approximately £1,260m (2022: £1,150m). This has been calculated based on future cash flows discounted at an appropriate rate for the risk of the debt. The fair value is within Level 3 of the fair value hierarchy (refer to the Fair Value Hierarchy table in Note 27).

Expected irrecoverable amounts on balances with indicators of impairment are provided for based on past default experience, adjusted for expected behaviour. Receivables which are impaired, other than by age or default, are separately identified and provided for as necessary.

The ECL allowance against other debtors is immaterial in the current and prior year. The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. Customer and Other Receivables (continued)

An analysis of changes in the gross carrying amount in relation to customer receivables and other trade receivables is as follows:

| Gross carrying amount | Lifetime ECL £m | Credit impaired £m | Total £m |
|---|---|---|---|
| **At January 2021** | **1,149.1** | **88.5** | **1,237.6** |
| New assets originated/recoveries | 197.2 | (13.6) | 183.6 |
| Transfers from lifetime ECL to credit impaired | (39.4) | 39.4 | – |
| Financial assets derecognised during the period | – | (29.7) | (29.7) |
| Amounts written off | (7.8) | (4.9) | (12.7) |
| **At January 2022** | **1,299.1** | **79.7** | **1,378.8** |
| New assets originated/recoveries | 159.4 | (11.7) | 147.7 |
| Transfers from lifetime ECL to credit impaired | (45.3) | 45.3 | – |
| Financial assets derecognised during the period | – | (8.0) | (8.0) |
| Amounts written off | (9.8) | (8.9) | (18.7) |
| **At January 2023** | **1,403.4** | **96.4** | **1,499.8** |

An analysis of the changes in the impairment allowance for customer receivables and other trade receivables is as follows:

| Loss allowance | Lifetime ECL £m | Credit impaired £m | Total £m |
|---|---|---|---|
| **At January 2021** | **(112.5)** | **(83.6)** | **(196.1)** |
| New assets originated/recoveries | (6.7) | 12.3 | 5.6 |
| Transfers from lifetime ECL to credit impaired | 3.6 | (35.6) | (32.0) |
| Change in the allowance for expected credit losses | (3.6) | 2.4 | (1.2) |
| Financial assets derecognised during the period | – | 26.8 | 26.8 |
| Amounts written off | 0.7 | 4.5 | 5.2 |
| **At January 2022** | **(118.5)** | **(73.2)** | **(191.7)** |
| New assets originated/recoveries | (5.2) | 10.5 | 5.3 |
| Transfers from lifetime ECL to credit impaired | 3.8 | (40.7) | (36.9) |
| Change in the allowance for expected credit losses | 4.4 | 0.4 | 4.8 |
| Financial assets derecognised during the period | – | 7.2 | 7.2 |
| Amounts written off | 0.8 | 8.0 | 8.8 |
| **At January 2023** | **(114.7)** | **(87.8)** | **(202.5)** |

The amount charged to the Income Statement (see table below) of £31.0m (2022: £28.6m) differs to the bad debt charge of £26m (2022: £27m) in the Chief Executive's Review on page 45 due to recoveries of previously written off assets taken directly to the Income Statement.

| | Lifetime ECL £m | Credit impaired £m | Total £m |
|---|---|---|---|
| **At January 2021** | **(112.5)** | **(83.6)** | **(196.1)** |
| Impairment | (11.5) | (24.0) | (35.5) |
| Amounts recovered | 1.3 | 5.6 | 6.9 |
| Charged to the Income Statement | (10.2) | (18.4) | (28.6) |
| Used during the year | 4.2 | 28.8 | 33.0 |
| Total movement | (6.0) | 10.4 | 4.4 |
| **At January 2022** | **(118.5)** | **(73.2)** | **(191.7)** |
| Impairment | (1.9) | (32.0) | (33.9) |
| Amounts recovered | 0.8 | 2.1 | 2.9 |
| Charged to the Income Statement | (1.1) | (29.9) | (31.0) |
| Used during the year | 4.9 | 15.3 | 20.2 |
| Total movement | 3.8 | (14.6) | (10.8) |
| **At January 2023** | **(114.7)** | **(87.8)** | **(202.5)** |

Information on the Group's credit risk in relation to customer receivables is provided in Note 28.

## 14. Other Financial Assets

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Foreign exchange contracts | **9.1** | – | 35.5 | – |
| Interest rate derivatives | – | – | – | 18.0 |
| | **9.1** | – | 35.5 | 18.0 |

Foreign exchange contracts comprise forward contracts and options, the majority of which are used to hedge exchange risk arising from the Group's merchandise purchases (refer to Note 28). These instruments are primarily for US Dollars and Euros. Interest rate derivatives are used to manage the fixed and floating interest rate risk associated with the corporate bonds (refer to Note 19).

## 15. Cash and Short Term Deposits

| | 2023 £m | 2022 £m |
|---|---|---|
| Cash at bank and in hand | **105.0** | 383.0 |
| Short term deposits | – | 50.0 |
| | **105.0** | 433.0 |

Cash at bank represents the gross cash positions, of which the majority are part of the Group's bank account and interest and balance pooling arrangements. Short term deposits are made for varying periods of between one day and three months depending on the cash requirements of the Group and earn interest at short term market deposit rates.

## 16. Bank Loans and Overdrafts

| | 2023 £m | 2022 £m |
|---|---|---|
| Bank overdrafts and short term borrowings | **102.3** | 233.1 |
| | **102.3** | 233.1 |

Bank overdrafts represent the gross overdraft positions, of which the majority are part of the Group's bank account interest and balance pooling arrangements. Bank overdrafts are repayable on demand and bear interest at a margin over bank base rates.

## 17. Trade Payables and Other Liabilities

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Trade payables | **230.1** | – | 275.4 | – |
| Amounts owed to associates and joint ventures | **2.1** | – | 0.5 | – |
| Refund liabilities | **8.3** | – | 4.8 | – |
| Other taxation and social security | **95.7** | – | 76.8 | – |
| Deferred revenue from the sale of gift cards | **84.2** | – | 79.5 | – |
| Share-based payment liability | **0.2** | – | 0.2 | 0.1 |
| Other creditors and accruals | **370.5** | **14.3** | 361.2 | 31.1 |
| | **791.1** | **14.3** | 798.4 | 31.2 |

Trade payables do not bear interest and are generally settled on 30 day terms. Other creditors and accruals do not bear interest. Within other creditors and accruals are staff related accruals £42.7m (bonus, holiday pay and overtime) (2022: £99.1m), warehouse and duty related accruals of £92.1m (2022: £82.7m) and accruals for marketing, rates, IT systems, utilities and deferred income on NEXT Unlimited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. Other Financial Liabilities

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Current £m | Non-current £m | Current £m | Non-current £m |
| Foreign exchange contracts | **40.8** | **–** | 1.0 | – |
| Interest rate derivatives | **–** | **9.5** | – | – |
| | **40.8** | **9.5** | 1.0 | – |

Foreign exchange contracts comprise forward contracts and options, of which the majority are used to hedge exchange risk arising from the Group's merchandise purchases (Note 28). These instruments are primarily for US Dollars and Euros. Interest rate derivatives are used to manage the fixed and floating interest rate risk associated with the corporate bonds (Note 19).

## 19. Corporate Bonds

| | Balance sheet value | | Nominal value | |
|---|---|---|---|---|
| | 2023 £m | 2022 £m | 2023 £m | 2022 £m |
| Corporate bond 3.000% repayable 2025 | **250.0** | 250.0 | **250.0** | 250.0 |
| Corporate bond 4.375% repayable 2026 | **240.7** | 265.7 | **250.0** | 250.0 |
| Corporate bond 3.625% repayable 2028 | **300.0** | 300.0 | **300.0** | 300.0 |
| | **790.7** | 815.7 | **800.0** | 800.0 |

The Group uses interest rate derivatives to manage the interest rate risk associated with its bonds, the profile of the post hedged interest rate which is shown below:

| | 2023 Nominal value £m | 2023 Aggregate interest rate | 2022 Nominal value £m | 2022 Aggregate interest rate |
|---|---|---|---|---|
| *2025 Bonds* | | | | |
| Fixed | **250.0** | **3.000%** | 250.0 | 3.000% |
| *2026 Bonds* | | | | |
| Floating | **250.0** | **SONIA +1.7%** | 250.0 | 6m LIBOR +1.4% |
| *2028 Bonds* | | | | |
| Fixed | **300.0** | **3.625%** | 300.0 | 3.625% |
| Total | **800.0** | | 800.0 | |

From April 2022, the hedged 2026 Bonds accrue interest by reference to the Sterling Overnight Index Average ("SONIA"). The main difference between LIBOR rates and SONIA rates is that SONIA does not incorporate any credit risk/liquidity premium which is inherent in the calculation of LIBOR.

Interest rate risk management is explained in Note 28 and the fair values of the corporate bonds in aggregate are shown in Note 27.

## 20. Pension Benefits

The Group operates four pension arrangements in the UK: the NEXT Group Pension Plan (the "Original Plan"), the 2013 NEXT Group Pension Plan (the "2013 Plan"), a Legal & General Master Trust and the NEXT Supplemental Pension Arrangement (the "SPA"). NEXT also contributes to the People's Pension which it uses as its auto-enrolment vehicle.

The Group's UK pension arrangements include defined benefit and defined contribution arrangements. The Original Plan and 2013 Plan are established under trust law and comply with all relevant UK legislation. Pension assets are held in separate trustee administered funds which have equal pension rights with respect to members of either sex. The defined benefit section was closed to new members in 2000 and over recent years the Group has taken steps to manage the ongoing risks associated with its defined benefit liabilities.

The Group also provides additional retirement benefits through the SPA to some plan members whose benefits would otherwise be affected by the Lifetime Allowance.

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

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

In August 2018, the Trustees of the 2013 Plan undertook a buy-in in respect of certain pensioner members of the 2013 Plan, with a premium paid of £94m. As at 28 January 2023 this buy-in policy has a value of £61m (2022: £84m) within the pension scheme assets.

Within the 2013 Plan, following a High Court ruling, a proportion of members' benefits are being equalised to address the inequalities that arise due to differing Guaranteed Minimum Pensions (GMP) entitlements for men and women. This equalisation increased the IAS 19 liabilities of the Plan by £0.4m and was recognised in the 2019 disclosures. Following a further High Court ruling on 20 November 2020, transfers out of the Plan between May 1990 and October 2018 need to be revisited and equalised for GMP. Due to the relatively small impact of GMP equalisation on benefits in the Plan and the amount of benefits transferred out of the Plan, we believe that the impact of this latest ruling is immaterial.

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

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

The Group operates a salary sacrifice scheme whereby members from either section can elect to receive a reduced gross salary in exchange for enhanced employer pension contributions. The participation of members in the salary sacrifice scheme does not result in any overall increase in costs to the Group.

### Defined contribution arrangements

In the prior year the defined contribution section of the 2013 Plan was transferred to a Legal & General Master Trust which enables the pension scheme members to benefit from lower running costs, greater flexibility of retirement options and improved range of online tools and advice to support members in decisions they may make about their financial plans. The Master Trust is run by a board of independent trustees who are responsible for ensuring that the Trust is run in accordance with the law and that funds are invested properly. Members pay 5% of their pensionable earnings which is matched by the Company. For death prior to retirement, a lump sum of three times the member's base salary at the previous April is payable along with the current value of the member's fund.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Pension Benefits (continued)

### Defined benefit arrangements

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

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

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

### Principal risks

The following table summarises the principal risks associated with the Group's defined benefit arrangements:

| | |
|---|---|
| Investment risk | The present value of defined benefit liabilities is calculated using a discount rate set by reference to high quality corporate bond yields. If plan assets underperform corporate bonds, this will create a deficit. Investment risk in the Original plan is negligible, as almost all liabilities in this plan are covered by insurance contracts. |
| Interest rate risk | A fall in corporate bond yields would increase the value of the liabilities. This would be only partially offset by an increase in the value of bond investments and annuity policies held. |
| Inflation risk | Pensions in payment are increased annually in line with RPI or CPI for Guaranteed Minimum Pensions built up since 1988. Pensions built up since 2005 are capped at 2.5% and pensions built up between 1997 and 2005 are capped at 5%. When discretionary increases have been awarded for pensions built up before 1997, they too have tended to take inflation into account. Therefore an increase in inflation would increase the value of pension liabilities. The assets would be expected to also increase, to the extent that they are linked to inflation, but this would not be expected to fully match the increase in liabilities. |
| Longevity risk | The present value of the defined benefit liabilities is calculated having regards to a best estimate of the mortality of plan members. If members live longer than this mortality assumption, this will increase liabilities. This is partially offset by insurance contracts covering part of the liability. |

The buy-in insurance contracts represent over 99.8% of the Original Plan pension liabilities, 11.6% of the 2013 Plan pension liabilities and 25.0% of the total pension liabilities. This partially offsets the total risks described above. Derivatives are not used to hedge any of the risks noted above.

## 20. Pension Benefits (continued)

### Income statement

The components of the net defined benefit expense, recognised in the Consolidated Income Statement within administrative expenses are as follows:

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Current service cost | 6.6 | – | 0.1 | 6.7 | 8.1 | – | 0.3 | 8.4 |
| Past service cost | 1.1 | – | – | 1.1 | – | – | – | – |
| Net interest | (3.6) | (0.1) | 0.2 | (3.5) | (1.8) | – | 0.2 | (1.6) |
| Administration costs | 2.4 | 0.1 | – | 2.5 | 2.4 | 0.1 | – | 2.5 |
| **Net defined benefit expense** | 6.5 | – | 0.3 | 6.8 | 8.7 | 0.1 | 0.5 | 9.3 |

### Other comprehensive income

The components of the net defined benefit expense recognised in other comprehensive income are as follows:

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Actuarial gains/(losses) due to liability experience | (33.4) | (1.4) | 0.1 | (34.7) | – | (4.0) | – | (4.0) |
| Actuarial gains due to liability assumption changes | 311.7 | 31.6 | 3.6 | 346.9 | 24.5 | 5.4 | 1.1 | 31.0 |
| | 278.3 | 30.2 | 3.7 | 312.2 | 24.5 | 1.4 | 1.1 | 27.0 |
| Return on plan assets greater than/(less than) discount rate | (280.8) | (30.8) | – | (311.6) | 29.5 | (1.4) | – | 28.1 |
| **Actuarial gains/(losses) recognised in other comprehensive income** | (2.5) | (0.6) | 3.7 | 0.6 | 54.0 | – | 1.1 | 55.1 |

The surplus in the scheme has moved from £156.9m at January 2022 to £157.5m at January 2023, mainly due to a reduction in plan obligations of £312.2m offset by a reduction in the return on plan assets of £311.6m. The reduction in the plan obligations was primarily the result of a higher discount rate being applied as yield on gilt curves increased in the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Pension Benefits (continued)

### Balance sheet valuation

The net defined benefit pension asset recognised in the Consolidated Balance Sheet is analysed as follows:

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Present value of benefit obligations | (521.1) | (95.2) | (6.8) | (623.1) | (793.0) | (129.8) | (10.3) | (933.1) |
| Fair value of plan assets | 684.0 | 96.6 | – | 780.6 | 958.2 | 131.8 | – | 1,090.0 |
| **Net pension asset** | 162.9 | 1.4 | (6.8) | 157.5 | 165.2 | 2.0 | (10.3) | 156.9 |

A net asset has been recognised as the Trust Deeds of the Original and 2013 Plans provide the Group with an unconditional right to a refund assuming the gradual settlement of the Plans' liabilities over time until all members have left the Plans.

### Plan obligations

Changes in the present value of defined benefit pension obligations are analysed as follows:

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Opening obligation | 793.0 | 129.8 | 10.3 | 933.1 | 812.1 | 136.2 | 11.0 | 959.3 |
| Current service cost | 6.6 | – | 0.1 | 6.7 | 8.1 | – | 0.3 | 8.4 |
| Past service cost | 1.1 | – | – | 1.1 | – | – | – | – |
| Interest cost | 16.9 | 2.7 | 0.2 | 19.8 | 13.3 | 2.1 | 0.2 | 15.6 |
| Employee contributions | 0.1 | – | – | 0.1 | 0.1 | – | – | 0.1 |
| Benefits paid | (18.3) | (7.1) | (0.1) | (25.5) | (16.1) | (7.1) | (0.1) | (23.3) |
| Actuarial (gains)/losses | | | | | | | | |
| – financial assumptions | (311.4) | (31.0) | (3.6) | (346.0) | (23.1) | (4.5) | (1.1) | (28.7) |
| – experience | 33.4 | 1.4 | (0.1) | 34.7 | – | 4.0 | – | 4.0 |
| – demographic assumptions | (0.3) | (0.6) | – | (0.9) | (1.4) | (0.9) | – | (2.3) |
| **Closing obligation** | 521.1 | 95.2 | 6.8 | 623.1 | 793.0 | 129.8 | 10.3 | 933.1 |

The present value of the defined benefit closing obligation of £623.1m (2022: £933.1m) was approximately 25% (2022: 26%) relating to active participants, 45% (2022: 47%) relating to deferred participants and 30% (2022: 27%) relating to pensioners.

### Plan assets

Changes in the fair value of defined benefit pension assets were as follows:

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | SPA £m | Total £m | 2013 Plan £m | Original Plan £m | SPA £m | Total £m |
| Opening assets | 958.2 | 131.8 | – | 1,090.0 | 920.2 | 138.3 | – | 1,058.5 |
| Employer contributions | 6.7 | – | 0.1 | 6.8 | 11.8 | – | – | 11.8 |
| Employee contributions | 0.1 | – | – | 0.1 | 0.1 | – | – | 0.1 |
| Benefits paid | (18.3) | (7.1) | (0.1) | (25.5) | (16.1) | (7.1) | – | (23.2) |
| Interest income on assets | 20.5 | 2.8 | – | 23.3 | 15.1 | 2.1 | – | 17.2 |
| Return on plan assets (excluding amounts included in interest) | (280.8) | (30.8) | – | (311.6) | 29.5 | (1.4) | – | 28.1 |
| Administrative costs | (2.4) | (0.1) | – | (2.5) | (2.4) | (0.1) | – | (2.5) |
| **Closing assets** | 684.0 | 96.6 | – | 780.6 | 958.2 | 131.8 | – | 1,090.0 |

# 20. Pension Benefits (continued)

## Plan assets (continued)

The fair value of defined benefit plan assets was as follows:

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 Plan £m | Original Plan £m | Total £m | % | 2013 Plan £m | Original Plan £m | Total £m | % |
| Equities | 124.2 | – | 124.2 | 15.9 | 101.8 | – | 101.8 | 9.4 |
| Equity-linked bonds | 54.6 | – | 54.6 | 7.0 | 81.8 | – | 81.8 | 7.5 |
| Bonds | 61.9 | – | 61.9 | 7.9 | 69.7 | – | 69.7 | 6.4 |
| Gilts | 300.2 | 1.6 | 301.8 | 38.7 | 458.6 | 2.3 | 460.9 | 42.3 |
| Property | 78.9 | – | 78.9 | 10.1 | 91.9 | – | 91.9 | 8.4 |
| Infrastructure | – | – | – | – | 62.2 | – | 62.2 | 5.7 |
| Insurance contracts | 60.5 | 95.0 | 155.5 | 19.9 | 84.4 | 129.5 | 213.9 | 19.6 |
| Cash and cash equivalents | 3.7 | – | 3.7 | 0.5 | 7.8 | – | 7.8 | 0.7 |
| | 684.0 | 96.6 | 780.6 | 100.0 | 958.2 | 131.8 | 1,090.0 | 100.0 |

None of the pension arrangements directly invest in any of the Group's own financial instruments nor any property occupied by, or other assets used by, the Group. The fair values of the above equity and debt instruments are determined based on quoted prices in active markets. The majority of the benefits within the Original Plan are covered by two insurance contracts with Aviva. The insurance assets have been valued so as to match the defined benefit obligations, the value of which was calculated by Aviva.

## Principal assumptions

The IAS 19 (accounting) valuation of the defined benefit obligation was undertaken by an external qualified actuary as at January 2023 using the projected unit credit method. The principal actuarial assumptions used in the valuation were as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Original Plan | 2013 and SPA | Original Plan | 2013 and SPA |
| Discount rate | 4.60% | 4.60% | 2.15% | 2.15% |
| Inflation – RPI | 3.40% | 3.10% | 3.85% | 3.50% |
| Inflation – CPI | 2.40% | 2.70% | 2.85% | 3.05% |
| Salary increases | n/a | n/a | n/a | n/a |
| Pension increases in payment | | | | |
| – RPI with a maximum of 5.0% | 3.20% | 2.85% | 3.55% | 3.05% |
| – RPI with a maximum of 2.5% and discretionary increases | 2.10% | 1.85% | 2.25% | 2.00% |

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Pensioner aged 65 | Non-pensioner aged 45 | Pensioner aged 65 | Non-pensioner aged 45 |
| Life expectancy at age 65 (years) | | | | |
| Male | 22.3 | 24.3 | 22.3 | 24.3 |
| Female | 24.7 | 26.9 | 24.6 | 26.8 |

The discount rate has been derived as the single average discount rate appropriate to the term of the liabilities, based on the yields available on high quality Sterling corporate bonds. The expected average duration of the Original Plan's liabilities is 9.1 years, the SPA is 15.8 years and the 2013 Plan is 14.2 years.

The rate of retail price inflation (RPI) has been derived in a consistent way to the discount rate, so that it is appropriate to the term of the liabilities. The RPI assumption for the 2013 Plan and SPA allows for the inflation risk premium of 0.3% per annum. As in previous years, the Original Plan does not allow for an inflation risk premium because its assets and liabilities are almost fully matched.

The rate of consumer price inflation (CPI) is set lower than the assumption for retail price inflation, reflecting the long term expected gap between the two indices and takes into account the alignment of RPI to CPI from 2030.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. Pension Benefits (continued)

### Principal assumptions (continued)

For the 2013 Plan and the SPA, the base mortality assumptions reflect the best estimate output from a postcode mortality study. This results in an assumption in line with the standard SAPS Series 3 All Pensioner tables (with a multiplier of 101% for male and female pensioners and 103% for male non-pensioners and 100% for female non-pensioners). Future improvement trends have been allowed for, in line with the most recent CMI core projection model (CMI 2021) with a long term trend towards 1.5% per annum and a smoothing factor of 7.5.

The base mortality assumption for the Original Plan is in line with the standard SAPS Series 1 All Pensioner tables, with medium cohort improvements to 2009, and CMI 2013 improvements applied from 2009 with a long term trend towards 1.5% per annum.

### Sensitivity analysis

The sensitivity of the net pension asset to changes in the principal assumptions is:

| | Sensitivity analysis | Impact on net pension asset as at 28 January 2023 |
|---|---|---|
| Discount rate | 0.5% decrease | £45m decrease |
| Price inflation | 0.5% increase to RPI and CPI | £24m decrease |
| Price inflation | 0.1% decrease to CPI (i.e. increase in the gap between RPI and CPI) | £1m increase |
| Mortality | Life expectancy increased by one year | £10m decrease |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. Aside from the matching insurance contracts held in the Original Plan, no allowance has been made for any change in assets that might arise under any of the scenarios set out above. When calculating the sensitivity of the defined benefit obligation to changes in the significant assumptions, the same method has been applied as when calculating the pension liability recognised within the Consolidated Balance Sheet. The inflation assumption impacts the "pension increases in payment" and deferred pension calculations.

The sensitivities shown are just one possible outcome and should not be taken as an indication of the likelihood of a change occurring in the future. Market metrics used to derive the discount rate and price inflation assumptions could increase or decrease in the future, by more or less than the change set out.

### Full actuarial valuation

An actuarial valuation of the 2013 Plan was undertaken as at 30 September 2019 by Mercer, who are the 2013 Plan Actuary to the Trustees. The valuation showed a funding deficit on the Technical Provisions basis required by legislation of £19.1m at that date.

The Group agreed a recovery plan to meet the funding deficit, which is intended to restore the Plan assets to a fully funded position on a Technical Provisions basis by 31 December 2024. Under that agreement, the Group will contribute five annual payments of £4.0m by 31 December each year if the funding level is below 105% at the preceding 30 September. In addition, if the funding level is below 96.5% for two consecutive quarters, then an additional Company contingent contribution of up to £11.9 million is payable, subject to a maximum contingent contribution of £11.9 million in any Company financial year.

At 31 December 2022 the 2013 Plan was estimated to be circa 115% funded on a Technical Provisions basis, reflecting the lower risk investment strategy in place from February 2021, corresponding to a surplus on this basis in the region of £84m.

With effect from January 2020, the Company also agreed to pay contributions of 38% per annum of members' frozen pensionable salaries as at 31 October 2012 towards the future accrual of benefits for active members.

### Contributions

Members of the defined benefit section of the 2013 Plan contribute 3% or 5% of pensionable earnings; the Group contributes 38% per annum. Members of the Legal & General Master Trust defined contribution scheme contribute 5% of Pensionable Earnings, which is matched by the Group.

Contributions paid by the Group during the year are set out below:

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Defined contribution – recognised as an expense | **17.1** | 17.1 |
| Automatic enrolment – recognised as an expense | **19.7** | 15.6 |
| Defined benefit | **6.7** | 11.8 |
| | **43.5** | 44.5 |

Employer contributions to the defined benefit section in the year ahead are expected to be around £7m. Employer contributions for the defined contribution Master Trust scheme are expected to be circa £17m (including salary sacrifice contributions) for the year ahead. Employer contributions for the automatic enrolment scheme are expected to be around £21m, including salary sacrifice contributions.

## 21. Provisions

| | Property costs | |
|---|---|---|
| | **2023 £m** | 2022 £m |
| At the beginning of the year | **21.9** | 18.6 |
| Provisions made in the year | **13.3** | 4.3 |
| Utilisation of provisions | **(2.2)** | (1.4) |
| Unwind of discount | **0.8** | 0.4 |
| At the end of the year | **33.8** | 21.9 |

Provision is made for the committed cost or estimated exit costs of properties occupied by the Group.

## 22. Share Capital

| | **2023 Shares '000** | 2022 Shares '000 | **2023 £m** | 2022 £m |
|---|---|---|---|---|
| **Allocated, called up and fully paid** | | | | |
| *Ordinary shares of 10p each* | | | | |
| At the start of the year | **132,772** | 132,949 | **13.3** | 13.3 |
| Purchased for cancellation in the year | **(3,509)** | (177) | **(0.4)** | – |
| | **129,263** | 132,772 | **12.9** | 13.3 |

The table below shows the movements in equity from share purchases and commitments during the year:

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Shares '000** | **Cost £m** | Shares '000 | Cost £m |
| Shares purchased for cancellation in the year | **3,509** | **224.0** | 177 | 13.1 |
| Amount shown in Statement of Changes in Equity | | **224.0** | | 13.1 |

Subsequent to the end of the financial year, the Company entered into an irrevocable closed period share buyback programme and during the period from 27 February 2023 up to and including 28 March 2023 purchased 526,099 shares for cancellation at a cost of £36.2m.

## 23. Other Reserves

Other reserves in the Consolidated Balance Sheet comprise the reserve created on reduction of share capital through a Scheme of Arrangement under Section 425 of the Companies Act 1985 of £1,460.7m less share premium account of £3.8m and capital redemption reserve of £8.7m at the time of a capital reconstruction in 2002, plus the accumulated amount of goodwill arising on acquisition after taking into account subsequent disposals of £0.7m, less the unrealised component of revaluations of properties arising under previous accounting standards of £5.1m as at the date of transition to IFRS.

## 24. Share-based Payments

The Group operates a number of share-based payment schemes as follows:

### Management share options

The NEXT Management Share Option Plan provides for options over shares, exercisable between three and 10 years following their grant, to be allocated to Group employees at the discretion of the Remuneration Committee. This plan is primarily aimed at middle management and senior store staff. No options were granted to any directors or changes made to existing entitlements in the year under review. No employee is entitled to be granted options under the scheme if, in the same financial year, they have received an award under NEXT's Long Term Incentive Plan or Share Matching Plan.

The total number of options which can be granted is subject to limits. There are no cash-settlement alternatives and they are therefore accounted for under IFRS 2 as equity-settled awards. Option prices are set at the prevailing market price at the time of grant. The maximum total market value of shares (i.e. the acquisition price of shares) over which options may be granted to any person during any financial year of the Company is three times salary, excluding bonuses and benefits in kind. This limit may be increased to five times salary in circumstances considered by the Remuneration Committee to be exceptional, for example on the grant of options following recruitment. Grants are generally made annually.

### Sharesave options

The Company's Save As You Earn (Sharesave) scheme is open to all UK employees. Invitations to participate are generally issued annually and the scheme is subject to HMRC rules. The current maximum monthly savings within the schemes detailed below is £250. Options are granted at the prevailing market rate less a discount of 20% and are exercisable three or five years from the date of grant. Sharesave options are also accounted for as equity-settled awards under IFRS 2.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. Share-based Payments (continued)

### Management and Sharesave options

The following table summarises the movements in Management and Sharesave options during the year:

| | 2023 No. of options | 2023 Weighted average exercise price | 2022 No. of options | 2022 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at beginning of year | **5,153,993** | **£55.78** | 5,650,992 | £49.83 |
| Granted | **2,544,386** | **£50.19** | 1,185,455 | £76.14 |
| Exercised | **(704,448)** | **£49.53** | (1,462,096) | £49.71 |
| Forfeited | **(603,599)** | **£57.96** | (220,358) | £52.95 |
| Outstanding at end of year | **6,390,332** | **£54.04** | 5,153,993 | £55.78 |
| Exercisable at end of year | **1,571,001** | **£54.94** | 1,036,463 | £52.86 |

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was £62.40 (2022: £80.94). Options outstanding at 28 January 2023 are exercisable at prices ranging between £38.25 and £80.64 (2022: £29.67 and £80.64) and have a weighted average remaining contractual life of 6.1 years (2022: 6.2 years), as analysed in the table below:

| | 2023 No. of options | 2023 Weighted average remaining contractual life (years) | 2022 No. of options | 2022 Weighted average remaining contractual life (years) |
|---|---|---|---|---|
| Exercise price range | | | | |
| £29.67-£41.09 | **1,258,787** | **3.8** | 215,183 | 4.4 |
| £41.70-£44.22 | **1,215,109** | **7.0** | 1,407,059 | 7.6 |
| £48.12-£56.46 | **1,350,225** | **4.4** | 2,052,792 | 5.0 |
| £59.20-£64.53 | **1,520,462** | **8.6** | 356,493 | 4.2 |
| £66.95-£80.64 | **1,045,749** | **6.4** | 1,122,466 | 7.5 |
| | **6,390,332** | **6.1** | 5,153,993 | 6.2 |

### Share Matching Plan (SMP)

The SMP is an equity-settled scheme open to a small number of senior executives below Board level. Executive directors are not granted SMP awards. Under the current awards participants who invest a proportion of any annual cash bonus in NEXT shares will receive up to a maximum of two times the original number of shares they purchase with their bonus. Any matching is conditional upon achieving performance measures over the following three years. The maximum matching ratio which is permitted under the SMP rules is 3:1, matching the pre-tax equivalent of the amount invested in shares. For any SMP grants made from 2018, participants will be entitled to receive ordinary and special dividend accruals on any awards vesting under the SMP.

The Remuneration Committee's policy is to set performance measures by reference to underlying fully diluted post-tax EPS but the Committee has flexibility to use different measures. Under the formulae, a notional adjustment is made to actual EPS achieved for special dividends, on the basis that the cash distributed had instead been used to purchase shares at the prevailing share price on the day of the special dividend payment.

The following table summarises the movements in nil cost SMP options during the year:

| | 2023 No. of options | 2022 No. of options |
|---|---|---|
| Outstanding at beginning of year | **18,142** | 27,750 |
| Granted | **21,894** | – |
| Dividend accrual awarded in the year | **548** | – |
| Exercised | **(8,886)** | – |
| Forfeited | **–** | (9,608) |
| Outstanding at end of year | **31,698** | 18,142 |
| Exercisable at end of year | **–** | – |

# 24. Share-based Payments (continued)

## Share Matching Plan (SMP) (continued)

The weighted average remaining contractual life of these options is 8.7 years (2022: 7.9 years). During the year ending 28 January 2023 SMP options were exercised at different times and the weighted average share price during this period was £61.76. During the year ending 29 January 2022 there was no SMP grant and no SMP options were exercised.

## Long Term Incentive Plan (LTIP)

As explained in the Remuneration Report, the Group operates an equity-settled LTIP scheme for executive directors and other senior executives. Performance conditions for the LTIP awards are detailed in the Remuneration Report.

The following table summarises the movements in nil cost LTIP awards during the year:

| | 2023 No. of awards | 2022 No. of awards |
|---|---|---|
| Outstanding at beginning of year | **520,017** | 535,506 |
| Granted | **204,644** | 148,975 |
| Dividend accrual awarded in the year | **8,538** | 7,952 |
| Vested | **(140,907)** | (160,161) |
| Forfeited | **(62,209)** | (12,255) |
| Outstanding at end of year | **530,083** | 520,017 |

The weighted average remaining contractual life of these options is 1.4 years (2022: 1.3 years).

## Profit Sharing Bonus Plan

The Profit Sharing Bonus Plan provided for options over shares in NEXT for senior employees of Lipsy Limited. Under the arrangement, a profit bonus equal to 3.6% of the average of the post tax profits of Lipsy and any subsidiaries of Lipsy in respect of the financial years ending January 2023 and January 2024, multiplied by ten was payable. This plan was settled early during the year to January 2023 and as a result no options remained outstanding at the year end date.

## Fair value calculations

The fair value of Management, Sharesave and Share Matching Plan options granted is calculated at the date of grant using a Black-Scholes option pricing model. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equivalent to the expected life of the option. The expected life applied in the model is based on historical analyses of exercise patterns, taking into account any early exercises. The following table lists the inputs to the model used for the two sets of management options granted in the years ended 28 January 2023 and 29 January 2022 based on information at the date of grant:

| **Management share options – first grant in financial year** | 2023 | 2022 |
|---|---|---|
| Share price at date of grant | **£59.20** | £80.64 |
| Exercise price | **£59.20** | £80.64 |
| Volatility | **35.40%** | 31.10% |
| Expected life | **4 Years** | 4 Years |
| Risk free rate | **1.56%** | 0.23% |
| Dividend yield | **2.15%** | 2.08% |
| **Weighted average fair value per option** | **£14.57** | £16.09 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. Share-based Payments (continued)

### Long Term Incentive Plan (LTIP) (continued)

| Management share options – second grant in the financial year (not applicable for 2023) | 2023 | 2022 |
|---|---|---|
| Share price at date of grant | – | £78.68 |
| Exercise price | – | £78.68 |
| Volatility | – | 37.32% |
| Expected life | – | 4 Years |
| Risk free rate | – | 0.76% |
| Dividend yield | – | 2.13% |
| **Weighted average fair value per option** | – | £19.63 |

| Sharesave plans | 2023 | 2022 |
|---|---|---|
| Share price at date of grant | **£48.36** | £80.66 |
| Exercise price | **£38.69** | £64.53 |
| Volatility | **38.65%** | 36.84% |
| Expected life | **3.4 years** | 3.4 years |
| Risk free rate | **3.22%** | 0.68% |
| Dividend yield | **3.99%** | 2.08% |
| **Weighted average fair value per option** | **£14.77** | £24.81 |

| Share Matching Plan | 2023 | 2022* |
|---|---|---|
| Share price at date of grant | **£61.48** | – |
| Exercise price | **Nil** | – |
| Volatility | **38.02%** | – |
| Expected life | **3 years** | – |
| Risk free rate | **1.48%** | – |
| Dividend yield | **Nil** | – |
| **Weighted average fair value per option** | **£61.48** | – |

* There were no shares issued under the Share Matching Plan in the year ended 29 January 2022.

The fair value of LTIP awards granted is calculated at the date of grant using a Monte Carlo option pricing model. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equivalent to the life of the award. The following table lists the inputs to the model used for awards granted in the year ended 28 January 2023 and 29 January 2022 based on information at the date of grant:

| LTIP awards (granted in March/April) | 2023 | 2022 |
|---|---|---|
| Share price at date of grant | **£62.82** | £79.20 |
| Award price | **Nil** | Nil |
| Volatility | **37.35%** | 27.60% |
| Life of award | **3 years** | 3 years |
| Risk free rate | **1.41%** | 0.18% |
| Dividend yield | **0.00%** | 0.00% |
| **Fair value per award** | **£30.98** | £37.48 |

| LTIP awards (granted in September) | 2023 | 2022 |
|---|---|---|
| Share price at date of grant | **£48.01** | £82.12 |
| Award price | **Nil** | Nil |
| Volatility | **38.99%** | 37.14% |
| Life of award | **3 years** | 3 years |
| Risk free rate | **4.35%** | 0.50% |
| Dividend yield | **0.00%** | 0.00% |
| **Fair value per award** | **£23.35** | £51.00 |

From September 2017, for all new LTIP awards, dividend accruals (both in respect of special and ordinary dividends) may be payable on vested awards.

The charge to the Income Statement for all share option schemes is disclosed in note 4.

## 25. Shares Held by ESOT

The NEXT 2003 ESOT has an independent trustee resident in Jersey and provides for the issue of shares to Group employees to satisfy awards which vest/are exercised in accordance with the terms of the various share-based schemes detailed in Note 24.

As at 28 January 2023 the ESOT held 6,469,007 (2022: 5,302,016) ordinary shares of 10p each in the Company, the market value of which amounted to £429.3m (2022: £401.6m). Details of outstanding share awards and options are shown in Note 24.

The consideration paid for the ordinary shares of 10p each in the Company held by the ESOT at 28 January 2023 and 29 January 2022 has been shown as an ESOT reserve and presented within equity for the Company and the Group. All other assets, liabilities, income and costs of the ESOT have been incorporated into the financial statements of the Company and the Group.

The table below shows the movements in equity from ESOT transactions during the year:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Shares '000 | £m | Shares '000 | £m |
| Shares purchased by ESOT in the year | **2,118** | **124.0** | 1,895 | 151.3 |
| Shares sold by ESOT in the year | **–** | **–** | – | – |
| Shares issued in respect of employee share schemes | **951** | **40.8** | 1,543 | 66.4 |

Exercises in the year totalled £35.2m (2022: £72.5m) on Management and Sharesave options. The amount shown in the Statement of Changes in Equity of £40.8m (2022: £66.4m) is after the issue of any nil cost LTIP, SMP and Deferred bonus shares. The weighted average cost of shares issued by the ESOT was £59.0m (2022: £90.8m).

As at 28 March 2023, 233,591 employee share options had been exercised subsequent to the Balance Sheet date and had been satisfied by ordinary shares issued by the ESOT.

## 26. Financial Instruments: Categories

| | 2023 £m | 2022 £m |
|---|---|---|
| *Financial assets* | | |
| Derivatives not designated as hedging instruments | **0.5** | 0.1 |
| Derivatives designated as hedging instruments | **8.6** | 53.4 |
| Customer and other receivables at amortised cost* | **1,370.2** | 1,227.3 |
| Cash, short term deposits (note 15) | **105.0** | 433.0 |
| Preference shares at amortised cost | **63.1** | 35.1 |
| Non-listed equity instruments designated at fair value through profit or loss / OCI | **0.2** | 1.0 |
| *Financial liabilities* | | |
| Derivatives not designated as hedging instruments | **(17.6)** | (0.8) |
| Derivatives designated as hedging instruments | **(32.7)** | (0.2) |
| Lease liabilities | **(1,023.3)** | (1,057.5) |
| Interest bearing loans and borrowings: | | |
| Corporate bonds at amortised cost adjusted for the fair value changes attributable to the risk being hedged | **(790.7)** | (815.7) |
| Bank loans and overdrafts at amortised cost | **(102.3)** | (233.1) |
| Trade and other payables at amortised cost** | **(596.9)** | (647.7) |

* Prepayments of £54.9m (2022: £53.1m) and other debtors of £0.4m (2022: £0.5m) do not meet the definition of a financial instrument.

** Other taxation and social security payables of £95.7m (2022: £76.8m), deferred income of £84.2m (2022: £79.5m), share-based payment liabilities of £0.2m (2022: £0.3m) and other creditors of £28.5m (2022: £25.3m) do not meet the definition of a financial instrument.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. Financial Instruments: Fair Values

The fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's Balance Sheet, other than corporate bonds and customer receivables, based on the following assumptions:

| | |
|---|---|
| Other trade receivables, trade payables, short term deposits and borrowings | The fair value approximates the carrying amount because of the short maturity of these instruments. |
| Preference shares | The fair value approximates the carrying amount because the percentage interest earned on the shares is equivalent to the effective interest rate used to calculate the amortised cost. |
| Non-listed equity instruments | The fair value approximates the net assets of the investment given no observable market rates at the reporting date. |
| Long term borrowings | The fair value of bank loans and other borrowings approximates the carrying value reported in the Balance Sheet as the majority are floating rate where interest rates are reset at intervals less than one year. |
| Derivative financial instruments | The fair value is determined as the net present value of cash flows using observable market rates at the reporting date. |

The fair value of corporate bonds is as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **Corporate bonds** | Carrying amount £m | Fair value £m | Carrying amount £m | Fair value £m |
| In hedging relationships | **240.7** | **249.8** | 265.7 | 277.8 |
| Not in hedging relationships | **550.0** | **533.5** | 550.0 | 589.6 |
| | **790.7** | **783.3** | 815.7 | 867.4 |

Corporate bonds are held at amortised cost, and where hedged, adjusted for the fair value changes attributable to the interest rate risk being hedged (see Note 19).

### Fair Value Hierarchy

The fair values of financial instruments measured by reference to the following levels under IFRS 13 *"Fair value measurement"*:

| Hierarchy level | Inputs | Financial instruments | Valuation methodology |
|---|---|---|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities | Corporate bonds and Money Market Funds | Market value includes accrued interest and change in credit risk and interest rate risk, and is therefore different to the reported carrying amounts. |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) | Derivative financial instruments | Valuation techniques include forward pricing and swap models using net present value calculation of future cash flows. The model inputs include the foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves. |
| Level 3 | Inputs for the asset or liability that are not based on observable market data (unobservable market data) | Non-listed equity instruments at fair value through OCI | The fair value of these non-listed equity investments has been estimated using a discounted cash flow model. |

# 28. Financial Instruments: Financial Risk Management and Hedging Activities

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework and for establishing the Group's risk management policies.

The Group has exposure to the following risks arising from financial instruments:

- Liquidity risk
- Interest rate risk
- Foreign currency risk
- Credit risk
- Capital risk

## Treasury function

NEXT operates a centralised treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the Group's activities. As part of its strategy for the management of these risks, the Group uses financial instruments. In accordance with the Group's treasury policy, financial instruments are not entered into for speculative purposes. The treasury policy is reviewed and approved by the Board and specifies the parameters within which treasury operations must be conducted, including authorised counterparties, instrument types and transaction limits, and principles governing the management of liquidity, interest and foreign currency risks.

The Group's financial instruments also include cash, short term deposits, preference shares, bank overdrafts, loans, and corporate bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations.

## Liquidity risk

The Group manages its cash and borrowing requirements centrally to minimise net interest expense within risk parameters agreed by the Board, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses. The forecast cash and borrowings profile of the Group is monitored to ensure that adequate headroom remains under committed borrowing facilities.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities, including cash flows in respect of derivatives:

| 2023 | Less than 1 year £m | 1 to 2 years £m | 2 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| Bank loans and overdrafts | **102.3** | – | – | – | **102.3** |
| Lease liabilities | **182.7** | **162.4** | **360.3** | **693.6** | **1,399.0** |
| Trade and other payables | **569.7** | **4.6** | – | – | **574.3** |
| Corporate bonds | **29.3** | **29.3** | **562.0** | **310.9** | **931.5** |
| | **884.0** | **196.3** | **922.3** | **1,004.5** | **3,007.1** |
| Derivatives: net settled | **2.7** | **2.9** | **2.8** | – | **8.4** |
| Derivatives: gross settled | | | | | |
| Cash inflows | **(1,139.1)** | – | – | – | **(1,139.1)** |
| Cash outflows | **1,169.4** | – | – | – | **1,169.4** |
| **Total cash flows** | **917.0** | **199.2** | **925.1** | **1,004.5** | **3,045.8** |

| 2022 | Less than 1 year £m | 1 to 2 years £m | 2 to 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| Bank loans and overdrafts | 233.1 | – | – | – | 233.1 |
| Lease liabilities | 202.2 | 168.0 | 376.8 | 683.8 | 1,430.8 |
| Trade and other payables | 597.7 | 20.9 | – | – | 618.6 |
| Corporate bonds | 29.3 | 29.3 | 580.4 | 321.8 | 960.8 |
| | 1,062.3 | 218.2 | 957.2 | 1,005.6 | 3,243.3 |
| Derivatives: net settled | (5.4) | (2.6) | (9.2) | – | (17.2) |
| Derivatives: gross settled | | | | | |
| Cash inflows | (1,244.7) | – | – | – | (1,244.7) |
| Cash outflows | 1,209.1 | – | – | – | 1,209.1 |
| **Total cash flows** | 1,021.3 | 215.6 | 948.0 | 1,005.6 | 3,190.5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

### Liquidity risk (continued)

Within lease liabilities greater than 5 years are leases on stores with cash flows in years 5-10 of £193.4m (2022: 237.1m) and more than 10 years of £42.3m (2022: £57.3m). The lease liabilities greater than 5 years on warehouses and head office premises with cash flows in years 5-10 are £137.5m (2022: £111.0m) and more than 10 years of £320.4m (2022: £278.4m).

At 28 January 2023, the Group had borrowing facilities of £450.0m (2022: £450.0m) committed until November 2024, in respect of which all conditions precedent have been met. £nil of the facilities were drawn down at January 2023 (2022: £nil).

### Interest rate risk

The Group is exposed to fair value interest rate risk on its fixed rate corporate bonds and cash flow interest rate risk on floating rate loans and overdrafts. The forecast cash and borrowings profile of the Group is monitored regularly to assess the mix of fixed and variable rate debt, and the Group uses interest rate derivatives where appropriate to manage its exposure to changes in interest rates and the economic environment.

### Interest rates: fair value hedges

The Group has interest rate swap agreements in place as fair value hedges against part of the interest rate risk associated with the corporate bonds. Under the terms of the swaps, which have matching features as the bonds, the Group receives a fixed rate of interest equivalent to the relevant coupon rate, and pays a variable rate interest related to LIBOR prior to April 2022 and SONIA, from April 2022. Details of the aggregate rates payable are given in Note 19.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swaps match the terms of the fixed rate corporate bonds (e.g. notional amount and maturity). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and the hedging instrument.
- Differences in timing of cash flows of the hedged item and hedging instrument.
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and the hedged item.

The fair values of the Group's interest rate swaps, including accrued interest, are as follows:

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Derivatives in designated fair value hedging relationships | (9.5) | 18.0 |

The fair values of derivatives have been calculated by discounting the expected future cash flows at prevailing interest rates and are based on market prices at the Balance Sheet date.

The timing of the nominal amounts of the interest rate swaps are as follows:

| | 2023 | 2022 |
|---|---|---|
| Maturity date of swap | October 2026 | October 2026 |
| Interest rate swap | Fixed to floating | Fixed to floating |
| Nominal amount (£m) | 250.0 | 250.0 |
| Average price | SONIA + 1.7% | 6 month LIBOR + 1.434% |

# 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

## Fair value of group swaps (continued)

The impact of the hedging instrument on the Balance Sheet is as follows:

| At 28 January 2023 | Line item in the Balance Sheet | Notional amount £m | Carrying amount* £m | Changes in fair value used for measuring ineffectiveness in the period £m |
|---|---|---|---|---|
| **Interest rate swaps – assets** | **Other financial assets** | **–** | **–** | **–** |
| **Interest rate swaps – liabilities** | **Other financial liabilities** | **250.0** | **(9.5)** | **(27.5)** |
| At 29 January 2022 | | | | |
| Interest rate swaps – assets | Other financial assets | 250.0 | 18.0 | (21.4) |
| Interest rate swaps – liabilities | Other financial liabilities | – | – | – |

* The carrying amount of derivatives includes £0.2 m of interest receivable (2022: £2.3m interest accrual).

The impact of the hedged items on the Balance Sheet is as follows:

| At 28 January 2023 | Line item in the Balance Sheet | Carrying amount £m | Accumulated fair value adjustments £m | Changes in fair value used for measuring ineffectiveness in the period £m |
|---|---|---|---|---|
| **Fixed-rate borrowings** | **Corporate bonds** | **250.0** | **(9.3)** | **(25.0)** |
| At 29 January 2022 | | | | |
| Fixed-rate borrowings | Corporate bonds | 250.0 | 15.7 | 21.3 |

The ineffectiveness recognised in the Income Statement for the period ended 28 January 2023 was £nil (2022: £nil).

## Foreign currency risk

The Group's principal foreign currency exposures arise from the purchase of overseas sourced products. Group policy allows for these exposures to be hedged for up to 24 months ahead in order to fix the cost in Sterling. This hedging activity involves the use of spot, forward and option contracts.

The market value of outstanding foreign exchange contracts is reported regularly to the Board and reviewed in conjunction with percentage cover taken by season and current market conditions, in order to assess and manage the Group's ongoing exposure.

The Group does not have a material exposure to currency movements in relation to the translation of overseas investments and consequently does not hedge any such exposure. The Group's net exposure to foreign currencies, taking hedging activities into account, is illustrated by the sensitivity analysis in Note 29.

## Foreign currency hedges

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of highly probable forecast transactions (e.g. notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange contracts are identical to the hedged risk components. To test hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in the fair value of the hedged items attributable to the hedged risks.

In these hedge relationships, the main sources of ineffectiveness are:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments.
- Different indices (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments.
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items.
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The fair values of foreign exchange derivatives are as follows:

| | 2023 £m | 2022 £m |
|---|---|---|
| Derivatives in designated hedging relationships | **(14.6)** | 35.2 |
| Other foreign exchange derivatives not designated in hedging relationships | **(17.0)** | (0.7) |
| **Total foreign exchange derivatives** | **(31.6)** | 34.5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

### Foreign currency hedges (continued)

Derivatives designated in hedging relationships at 28 January 2023:

| | Maturity | | | |
|---|---|---|---|---|
| **US Dollars (highly probable forecast purchases)** | **1–6 months** | **6–12 months** | **More than one year** | **Total** |
| Notional amount (in £m) | **663.5** | **40.9** | **–** | **704.4** |
| Average GBP: USD contract rate | **1.20** | **1.22** | **–** | **1.20** |
| **EURO (highly probable forecast purchases)** | | | | |
| Notional amount (in £m) | **26.8** | **–** | **–** | **26.8** |
| Average GBP: EURO contract rate | **1.13** | **–** | **–** | **1.13** |
| **EURO (highly probable forecast sales)** | | | | |
| Notional amount (in £m) | **20.0** | **–** | **–** | **20.0** |
| Average GBP: EURO contract rate | **1.13** | **–** | | **1.13** |
| **Other (highly probable forecast sales)** | | | | |
| Notional amount (in £m) | **47.5** | **–** | **–** | **47.5** |
| Average GBP: Other contract rate | **Various currencies*** | | | |

* 5 currencies are hedged, which individually are not material to the financial statements.

Derivatives designated in hedging relationships at 29 January 2022:

| | Maturity | | | |
|---|---|---|---|---|
| **US Dollars (highly probable forecast purchases)** | 1–6 months | 6–12 months | More than one year | Total |
| Notional amount (in £m) | 665.2 | 267.9 | – | 933.1 |
| Average GBP: USD contract rate | 1.39 | 1.38 | – | 1.39 |
| **EURO (highly probable forecast purchases)** | | | | |
| Notional amount (in £m) | 1.4 | – | – | 1.4 |
| Average GBP: EURO contract rate | 1.21 | – | – | 1.21 |
| **EURO (highly probable forecast sales)** | | | | |
| Notional amount (in £m) | 55.9 | 26.9 | – | 82.8 |
| Average GBP: EURO contract rate | 1.16 | 1.17 | – | 1.16 |
| **Other (highly probable forecast sales)** | | | | |
| Notional amount (in £m) | 83.2 | 0.6 | – | 83.8 |
| Average GBP: Other contract rate | Various currencies* | | | |

* 5 currencies were hedged, which are individually not material to the financial statements.

The impact of the hedging instruments on the Balance Sheet are as follows:

| **At 28 January 2023** | **Line item in the Balance Sheet** | **Notional amount £m** | **Carrying amount £m** | **Changes in fair value used for measuring ineffectiveness in the period £m** |
|---|---|---|---|---|
| **Foreign exchange contracts** | **Other financial assets** | **462.5** | **9.1** | **116.4** |
| **Foreign exchange contracts** | **Other financial liabilities** | **407.2** | **(40.8)** | **(37.6)** |
| At 29 January 2022 | | | | |
| Foreign exchange contracts | Other financial assets | 1,107.0 | 35.5 | 30.6 |
| Foreign exchange contracts | Other financial liabilities | 58.5 | (1.0) | 7.1 |

# 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

## Foreign currency hedges (continued)

The impact of the hedged items on the Balance sheet is as follows:

| | 28 January 2023 | | | 29 January 2022 | | |
|---|---|---|---|---|---|---|
| | Changes in fair value used for measuring ineffectiveness in the period £m | Closing cash flow hedge reserve £m | Closing cost of hedging reserve £m | Changes in fair value used for measuring ineffectiveness in the period £m | Closing cash flow hedge reserve £m | Closing cost of hedging reserve £m |
| Highly probable forecast sales | **(7.0)** | **1.9** | **–** | (3.0) | 0.5 | – |
| Highly probable forecast stock purchases | **86.2** | **(17.0)** | **0.5** | 39.9 | 33.9 | 0.9 |

The effect of the cash flow hedge in the Income Statement or other comprehensive income is as follows:

| Year ended 28 January 2023 | Ineffectiveness recognised in Income Statement £m | Recycled to cost of inventories £m | Cost of hedging recognised in OCI £m | Amount reclassified from OCI to the Income Statement £m | Line item in the Income Statement |
|---|---|---|---|---|---|
| **Highly probable forecast sales** | **–** | **–** | **–** | **6.1** | **Revenue** |
| **Highly probable forecast stock purchases** | **–** | **(134.8)** | **(0.4)** | **–** | **–** |
| Year ended 29 January 2022 | | | | | |
| Highly probable forecast sales | – | – | – | 3.2 | Revenue |
| Highly probable forecast stock purchases | – | 18.5 | 0.8 | – | – |

## Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Group's Online customer receivables. The carrying amount of financial assets represents the maximum residual credit exposure, which was £1,297.3m at the reporting date (2022: £1,187.1m). These are detailed in Note 13.

The Group's credit risk in relation to customer receivables is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which each new credit customer is analysed individually for creditworthiness and subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts using forward looking estimates. The concentration of credit risk is limited due to the Online customer base being large and diverse. At January 2023 there were 2.87m active customers (2022: 2.84m) with an average balance of £508 (2022: £477). The Group's outstanding receivables balances and impairment losses are detailed in Note 13. The performance of our credit risk policies and the risk of the debtor book are monitored weekly by management. Any trends and deviations from expectations are investigated. Senior management review is carried out monthly.

Customer receivables with a value of £17.6m (2022: £17.1m) were on a Reduced Payment Indicator (RPI) plan. An allowance for Expected Credit Losses (ECLs) of £12.3m (2022: £11.7m) has been made against these balances. Customers are typically on RPI plans for a period of 12 months during which no interest is charged and repayment rates are reduced. On completion of the RPI plan the customer would be treated as higher risk than the arrears stage and customer indebtedness would otherwise suggest. Any modification gain or loss recognised is immaterial to the financial statements.

In addition to those identified as previously being on an RPI, data provided by Experian has been used to identify customers who are, or have been, on a similar 'payment freeze' with another lender. These customers are also treated as higher risk than the arrears stage and customer indebtedness would otherwise suggest. The ECLs applied in calculating the overlay have been uplifted by an average of c.6%, weighted by value.

The Group uses Experian Delphi for Customer Management which provides a suite of characteristics and scores to monitor the credit behaviour of new and existing customers. The principal score for making risk decisions around credit limit changes, and monitoring the risk of associated sales, is the Account and Arrears Management ("AAM") score. The principal measure to assess a customer's ability to afford repayments, and our allowance for expected credit losses under IFRS 9, is the Consumer Indebtedness Index ("CII"). The CII is a score within the range of 1 to 99. A lower CII score is representative of a lower level of risk associated with the debt (i.e. a lower CII score indicates the customer has a greater ability to afford repayments).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

### Credit risk (continued)

The following table contains an analysis of customer and other receivables segmented by CII score at the end of the reporting period. For the purpose of this analysis, trade receivables are recognised in Risk band 1.

| | 2023 Total £m | 2022 Total £m |
|---|---|---|
| *Risk exposure determined by CII score* | | |
| Risk band 1 (CII<=10) | **891.6** | 801.8 |
| Risk band 2 (10<CII=<20) | **211.7** | 200.5 |
| Risk band 3 (20<CII=<47) | **173.8** | 176.0 |
| Risk band 4 (47<CII) | **126.3** | 120.8 |
| **Gross carrying amount before credit impaired** | **1,403.4** | 1,299.1 |
| Credit impaired | **96.4** | 79.7 |
| **Gross carrying amount after credit impaired** | **1,499.8** | 1,378.8 |
| Less allowance | **(202.5)** | (191.7) |
| **Carrying amount** | **1,297.3** | 1,187.1 |

Analysis of customer receivables and other trade receivables, stratified by credit grade, is provided in the tables below. Due to Government initiatives to support customers through the pandemic, the underlying risk is judged to be higher than the CII index may otherwise suggest. Expected loss rates have been uplifted using internal and external data to allow for this, in particular in relation to debt previously on payment plans.

| 2023 | Current £m | 1–30 days past due £m | 31–60 days past due £m | 61–90 days past due £m | 91–120 days past due £m | >120 days past due £m | Payment plans £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Customer receivables and other trade receivables** | | | | | | | | |
| Risk band 1 (CII<=10) | 873.9 | 14.0 | 0.5 | 0.1 | – | 0.1 | 3.0 | 891.6 |
| Risk band 2 (10<CII=<20) | 202.7 | 6.1 | 0.6 | 0.1 | – | 0.1 | 2.1 | 211.7 |
| Risk band 3 (20<CII=<47) | 158.4 | 8.2 | 2.0 | 1.0 | 0.3 | 0.4 | 3.5 | 173.8 |
| Risk band 4 (47<CII) | 94.2 | 9.1 | 4.4 | 3.5 | 3.0 | 3.1 | 9.0 | 126.3 |
| Otherwise impaired | – | – | – | – | – | 96.4 | – | 96.4 |
| **Total** | **1,329.2** | **37.4** | **7.5** | **4.7** | **3.3** | **100.1** | **17.6** | **1,499.8** |
| **Loss allowance** | | | | | | | | |
| Risk band 1 (CII<=10) | (35.6) | (1.2) | (0.2) | – | – | (0.1) | (1.9) | (39.0) |
| Risk band 2 (10<CII=<20) | (12.6) | (0.7) | (0.3) | (0.1) | – | (0.1) | (1.4) | (15.2) |
| Risk band 3 (20<CII=<47) | (17.2) | (1.4) | (1.0) | (0.6) | (0.2) | (0.3) | (2.3) | (23.0) |
| Risk band 4 (47<CII) | (19.1) | (2.0) | (2.7) | (2.3) | (2.3) | (2.4) | (6.7) | (37.5) |
| Otherwise impaired | – | – | – | – | – | (87.8) | – | (87.8) |
| **Total** | **(84.5)** | **(5.3)** | **(4.2)** | **(3.0)** | **(2.5)** | **(90.7)** | **(12.3)** | **(202.5)** |
| **Expected loss rate %** | | | | | | | | |
| Risk band 1 (CII<=10) | 4.1% | 8.8% | 32.4% | 47.6% | – | 78.2% | 63.7% | 4.4% |
| Risk band 2 (10<CII=<20) | 6.2% | 11.5% | 41.3% | 52.2% | – | 77.4% | 67.6% | 7.1% |
| Risk band 3 (20<CII=<47) | 10.8% | 16.5% | 51.4% | 60.5% | 73.8% | 76.8% | 64.3% | 13.2% |
| Risk band 4 (47<CII) | 20.3% | 22.1% | 61.3% | 66.1% | 79.0% | 78.7% | 75.2% | 29.8% |
| Otherwise impaired | – | – | – | – | – | 91.1% | – | 91.1% |
| **Total** | **6.4%** | **14.2%** | **55.1%** | **64.3%** | **78.3%** | **90.6%** | **70.1%** | **13.5%** |

## 28. Financial Instruments: Financial Risk Management and Hedging Activities (continued)

### Credit risk (continued)

| 2022 | Current £m | 1–30 days past due £m | 31–60 days past due £m | 61–90 days past due £m | 91–120 days past due £m | > 120 days past due £m | Payment plans £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Customer receivables and other trade receivables** | | | | | | | | |
| Risk band 1 (CII<=10) | 784.3 | 13.4 | 0.7 | 0.2 | – | 0.2 | 3.0 | 801.8 |
| Risk band 2 (10<CII=<20) | 191.6 | 5.5 | 0.9 | 0.2 | – | 0.1 | 2.2 | 200.5 |
| Risk band 3 (20<CII=<47) | 161.4 | 7.0 | 1.9 | 0.9 | 0.5 | 0.4 | 3.9 | 176.0 |
| Risk band 4 (47<CII) | 93.6 | 7.5 | 3.5 | 2.8 | 2.6 | 2.8 | 8.0 | 120.8 |
| Otherwise impaired | – | – | – | – | – | 79.7 | – | 79.7 |
| **Total** | **1,230.9** | **33.4** | **7.0** | **4.1** | **3.1** | **83.2** | **17.1** | **1,378.8** |
| **Loss allowance** | | | | | | | | |
| Risk band 1 (CII<=10) | (42.0) | (1.4) | (0.2) | (0.1) | – | (0.1) | (1.6) | (45.4) |
| Risk band 2 (10<CII=<20) | (13.9) | (0.8) | (0.3) | (0.1) | – | (0.1) | (1.2) | (16.4) |
| Risk band 3 (20<CII=<47) | (17.1) | (1.4) | (0.9) | (0.6) | (0.3) | (0.3) | (2.2) | (22.8) |
| Risk band 4 (47<CII) | (17.1) | (2.0) | (2.1) | (1.9) | (2.0) | (2.1) | (6.7) | (33.9) |
| Otherwise impaired | – | – | – | – | – | (73.2) | – | (73.2) |
| **Total** | **(90.1)** | **(5.6)** | **(3.5)** | **(2.7)** | **(2.3)** | **(75.8)** | **(11.7)** | **(191.7)** |
| **Expected loss rate %** | | | | | | | | |
| Risk band 1 (CII<=10) | 5.4% | 10.8% | 32.4% | 55.4% | – | 73.9% | 50.9% | 5.7% |
| Risk band 2 (10<CII=<20) | 7.2% | 14.6% | 37.7% | 57.4% | – | 73.6% | 53.0% | 8.2% |
| Risk band 3 (20<CII=<47) | 10.6% | 19.7% | 45.3% | 64.5% | 68.2% | 71.3% | 57.8% | 13.0% |
| Risk band 4 (47<CII) | 18.2% | 25.9% | 58.8% | 68.4% | 74.5% | 74.0% | 84.1% | 27.9% |
| Otherwise impaired | – | – | – | – | – | 91.9% | – | 91.9% |
| **Total** | **7.3%** | **16.7%** | **49.9%** | **66.4%** | **73.3%** | **91.1%** | **68.2%** | **13.9%** |

### Credit risk on other financial assets

Investments of cash surpluses and derivative contracts are made through banks and companies which must fulfil credit rating and investment criteria approved by the Board. Risk is further mitigated by diversification and limiting counterparty exposure. The Group does not consider there to be any impairment loss in respect of these balances (2022: £nil). The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset as the debt is not collateralized.

### Capital risk

The capital structure of the Group consists of debt, as analysed in Note 30, and equity attributable to the equity holders of the Parent Company, comprising issued capital, reserves and retained earnings as shown in the Consolidated Statement of Changes in Equity. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not restricted by any externally imposed capital requirements.

As part of its strategy for delivering sustainable returns to shareholders, the Group has been returning capital to shareholders by way of share buybacks in addition to dividends (including special dividends). Share buybacks may be transacted through both on-market purchases and off-market contingent contracts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29. Financial Instruments: Sensitivity Analysis

### Interest rate sensitivity analysis

The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 1.0% increase or decrease in interest rates, assuming all other variables were unchanged. The sensitivity rate of 1.0% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis has been prepared using the following assumptions:

- For floating rate assets and liabilities, the amount of the asset or liability outstanding at the Balance Sheet date is assumed to have been outstanding for the whole year.
- Fixed rate financial instruments that are carried at amortised cost are not subject to interest rate risk for the purpose of this analysis.

Positive figures represent an increase in profit or equity.

| | Income Statement | | Equity | |
|---|---|---|---|---|
| | 2023 £m | 2022 £m | 2023 £m | 2022 £m |
| Interest rate increase of 1.0% | **(2.8)** | (1.3) | **(2.8)** | (1.3) |
| Interest rate decrease of 1.0% | **2.8** | 1.3 | **2.8** | 1.3 |

### Foreign currency sensitivity analysis

The Group's principal foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% increase and decrease in the US Dollar/Sterling and Euro/Sterling exchange rates at the reporting date, assuming all other variables remain unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the fair value reserve in equity and the fair value of the hedging derivatives. For foreign exchange derivatives which are not designated hedges, movements in exchange rates impact the Income Statement.

Positive figures represent an increase in profit or equity.

| | Income Statement | | Equity | |
|---|---|---|---|---|
| | 2023 £m | 2022 £m | 2023 £m | 2022 £m |
| *Sterling strengthens by 10%* | | | | |
| US Dollar | **(20.9)** | (2.1) | **(51.4)** | (52.1) |
| Euro | **–** | – | **(1.5)** | 4.6 |
| *Sterling weakens by 10%* | | | | |
| US Dollar | **14.0** | (0.8) | **58.6** | 69.2 |
| Euro | **–** | – | **1.8** | (5.6) |

Year end exchange rates applied in the above analysis are US Dollar 1.24 (2022: 1.34) and Euro 1.14 (2022: 1.20). Strengthening and weakening of Sterling may not produce symmetrical results depending on the proportion and nature of foreign exchange derivatives which do not qualify for hedge accounting.

## 30. Analysis of Net Debt

| | January 2022 £m | Cash flow £m | Fair value changes £m | IFRS 16 £m | January 2023 £m |
|---|---|---|---|---|---|
| Cash and short term deposits | 433.0 | (328.0) | – | – | **105.0** |
| Overdrafts and short term borrowings | (233.1) | 130.8 | – | – | **(102.3)** |
| Cash and cash equivalents | 199.9 | (197.2) | – | – | **2.7** |
| | | | | | |
| Corporate bonds | (815.7) | – | 25.0 | – | **(790.7)** |
| Fair value hedges of corporate bonds | 15.7 | – | (25.0) | – | **(9.3)** |
| **Net debt excluding leases** | (600.1) | (197.2) | – | – | **(797.3)** |
| | | | | | |
| Current lease liability | (162.6) | – | – | 16.4 | **(146.2)** |
| Non-current lease liability | (894.9) | – | – | 17.8 | **(877.1)** |
| | (1,057.5) | – | – | 34.2 | **(1,023.3)** |
| **Net debt including leases** | **(1,657.6)** | **(197.2)** | **–** | **34.2** | **(1,820.6)** |

The IFRS 16 movements represent the cash movements in relation to lease payments of £204.4m, and non cash movements relating to disposals of £5.5m offset by additions of £84.2m, modifications of £41.5m, finance costs £47.3m and FX/Others of £2.7m.

Interest of £24.0m was accrued and paid on the Corporate bonds and associated hedges during the year. The unpaid interest accrual of £14.6m is recognised within accruals.

## 31. Related Party Transactions

During the year, group entities entered into the following transactions with related parties and their respective subsidiaries who are not members of the Group:

| | Joint ventures | | Associates | |
|---|---|---|---|---|
| **Related party** | **2023 £m** | 2022 £m | **2023 £m** | 2022 £m |
| Sales | **58.1** | 9.4 | **7.2** | 5.3 |
| Loans (repaid)/advanced | **(14.2)** | 14.2 | **0.5** | 0.8 |
| Transactions and loan interest | **47.8** | 29.1 | **1.2** | 1.1 |
| Amounts outstanding at year end | **27.7** | 23.6 | **2.8** | 2.6 |

The amounts above are an aggregation of the transactions with the Group's associates and joint ventures, namely:

- VS Brand Holdings UK Limited and its subsidiaries (joint venture)
- Pink TopCo Limited and its subsidiaries (the "Reiss" Group) (joint venture)
- Retail Restaurants Limited (joint venture)
- West apparel UK Holdings Limited ("GAP") (joint venture)
- Choice Discount Stores Limited (associate)
- Aubin & Wills Holdings Limited and its subsidiaries (associate)
- Regent Bidco 1 Limited and its subsidiaries (the "Jojo Maman Bébé" Group) (associate)
- Swoon Limited (associate).

All transactions are on an arm's length basis. Within transactions and loan interest are (i) recharges for payroll costs borne by the NEXT Group and then recharged to the related party and (ii) certain joint ventures are part of the NEXT VAT Group and accordingly includes transactions for the settlement of VAT by NEXT on behalf of the joint venture. Such amounts are immediately recharged by NEXT and then settled by the joint venture.

In addition, the Group incurred £59,000 of costs in relation to non-controlling interests.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. Acquisition of subsidiary

On 1 December 2022, the Group acquired 74% of the trade and assets from Joules Limited, a consolidated group whose principal activity is the design and sale of lifestyle clothing, related accessories and a homeware range, through a multi-channel business structure embracing retail stores, wholesale and online. It is expected that this acquisition will strengthen the Groups portfolio of brands while its Total Platform infrastructure will help grow the Joules business. This qualifies as a business as defined in IFRS 3 *Business Combinations*. The trade and assets were transferred into a new trading company, The Harborough Hare Limited.

The amounts recognised in respect of the identifiable assets acquired are set out in the table below:

| | £m |
|---|---|
| Financial assets | 1.8 |
| Inventory | 14.3 |
| Property, plant and equipment and software | 8.6 |
| Identifiable intangible assets | 10.5 |
| Financial liabilities | (9.8) |
| Deferred tax liabilities | (2.6) |
| **Total identifiable assets acquired** | **22.8** |
| Goodwill | 11.6 |
| Non-controlling interest in 26% of The Harborough Hare Holdings Limited | (5.6) |
| **Total consideration** | **28.8** |
| | |
| **Satisfied by:** | |
| Cash | 28.8 |

Due primarily to the short period of time between acquisition and reporting, the accounting for the acquisition of Joules has only been provisionally determined at the end of the reporting period. In accordance with the requirements of IFRS 3 *Business Combinations*, the Group will finalise the acquisition balance sheet within 12 months of the acquisition date.

For tax purposes, the tax values of Joules' assets are required to be reset based on market values of the assets. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the directors' best estimate of the likely tax values.

The identifiable intangible assets include a brand value of £10.1m and other intangible assets of £0.4m. Total identifiable assets acquired were £22.8m, which results in a goodwill value of £11.6m arising from the acquisition. The goodwill relates to expected synergies from combining Joules into the NEXT group and the effect of a combined workforce with Brand specific design experience. The goodwill at the year end was £11.6m (note 10).

The non-controlling interest of 26% ownership interest in Joules recognised at the acquisition date was measured by reference to the cash consideration paid by the non-controlling interest and amounted to £5.6m.

Joules contributed £32.8m revenue and £4.1m loss before tax to the Group's profit for the period between the date of acquisition and the reporting date. The Joules business was previously part of the Joules plc group which went into administration in November 2022. It is not possible to reliably identify the revenue or profit or loss which would have been recognised had the business combination occurred at the beginning of the annual reporting period. However prior to administration Joules Limited, the main trading entity of the former Joules plc group, reported revenue of £179.9m and a loss of £0.4m for the 52 weeks ended 30 May 2021.

## 33. Contingent liabilities

NEXT has since 2018 received around 1,500 equal pay complaints from former and current employees in our store network. These claims are subject to a legal and tribunal process which is expected to last several more years. The claims are fact sensitive, legally complex and being defended rigorously. The Directors believe that the likelihood of successful outcome for the claimants is possible (but not probable). The Directors also believe that it is not yet possible to reliably assess the likely outcome or the exact quantum of these claims if they are successful.

# PARENT COMPANY FINANCIAL STATEMENTS

# PARENT COMPANY BALANCE SHEET

| | Notes | 28 January 2023 £m | 29 January 2022 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | C2 | **2,475.7** | 2,475.7 |
| | | **2,475.7** | 2,475.7 |
| **Current assets** | | | |
| Other debtors | C3 | **195.5** | 163.5 |
| Cash at bank and in hand | | **1.5** | – |
| | | **197.0** | 163.5 |
| Bank loans and overdrafts | | **–** | (110.6) |
| Creditors: amounts falling due within one year | C4 | **(818.2)** | (554.1) |
| | | **(818.2)** | (664.7) |
| **Net current liabilities** | | **(621.2)** | (501.2) |
| **Total assets less current liabilities** | | **1,854.5** | 1,974.5 |
| **NET ASSETS** | | **1,854.5** | 1,974.5 |
| **Capital and reserves** | | | |
| Called up share capital | C5 | **12.9** | 13.3 |
| Share premium account | | **0.9** | 0.9 |
| Capital redemption reserve | | **17.0** | 16.6 |
| ESOT reserve | C5 | **(396.6)** | (331.6) |
| Other reserves | C5 | **985.2** | 985.2 |
| Profit and loss account | | **1,235.1** | 1,290.1 |
| **TOTAL EQUITY** | | **1,854.5** | 1,974.5 |

The profit for the year in the accounts of the Company is £400.0m (2022: £300.0m).

The financial statements were approved by the Board of directors and authorised for issue on 29 March 2023. They were signed on its behalf by:

**Lord Wolfson of Aspley Guise**
Chief Executive

**Amanda James**
Group Finance Director

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

| | Share capital £m | Share premium account £m | Capital redemption reserve £m | ESOT reserve £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **At 30 January 2021** | **13.3** | **0.9** | **16.6** | **(271.1)** | **985.2** | **1,352.2** | **2,097.1** |
| Profit for the period | – | – | – | – | – | 300.0 | 300.0 |
| Other comprehensive income for the period | – | – | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | – | – | 300.0 | 300.0 |
| Share buybacks (Note C5) | – | – | – | – | – | (13.1) | (13.1) |
| ESOT share purchases (Note C5) | – | – | – | (151.3) | – | – | (151.3) |
| Shares sold/issued by ESOT | – | – | – | 90.8 | – | (24.4) | 66.4 |
| Share option charge | – | – | – | – | – | 19.9 | 19.9 |
| Equity dividends | – | – | – | – | – | (344.5) | (344.5) |
| **At 29 January 2022** | 13.3 | 0.9 | 16.6 | (331.6) | 985.2 | 1,290.1 | 1,974.5 |
| Profit for the period | – | – | – | – | – | 400.0 | 400.0 |
| Other comprehensive income for the period | – | – | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | – | – | 400.0 | 400.0 |
| Share buybacks (Note C5) | (0.4) | – | 0.4 | – | – | (224.0) | (224.0) |
| ESOT share purchases (Note C5) | – | – | – | (124.0) | – | – | (124.0) |
| Shares sold/issued by ESOT | – | – | – | 59.0 | – | (18.2) | 40.8 |
| Share option charge | – | – | – | – | – | 24.3 | 24.3 |
| Equity dividends | – | – | – | – | – | (237.1) | (237.1) |
| **At 28 January 2023** | 12.9 | 0.9 | 17.0 | (396.6) | 985.2 | 1,235.1 | 1,854.5 |

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## C1. Accounting Policies

The Parent Company financial statements of NEXT plc have been prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101 "Reduced disclosure framework" ("FRS 101"). FRS 101 enables the financial statements of the Parent Company to be prepared in accordance with IFRS but with certain disclosure exemptions. The main areas of reduced disclosure are in respect of equity-settled share-based payments, financial instruments, the Cash Flow Statement, and related party transactions with Group companies. The accounting policies adopted for the Parent Company, NEXT plc, are otherwise consistent with those used for the Group which are set out on pages 181 to 195. The ESOT is consolidated on the basis that the parent has control, thus the assets and liabilities of the ESOT are included in the Balance Sheet and shares held by the ESOT in the Company are presented as a deduction from equity. As permitted by Section 408 of the Companies Act 2006, the Income Statement of the Company is not presented as part of the financial statements.

## C2. Investments

The £2,475.7m (2022: £2,475.7m) investment shown in the Balance Sheet of NEXT plc relates to its investment in NEXT Group plc.

A full list of the Group's subsidiary undertakings as at 28 January 2023 is contained in the table below.

| Company name | Registered office address | % held by Group companies | Direct or indirect |
|---|---|---|---|
| AgraTech Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Belvoir Insurance Company Limited | Suite 1 North, 1st Floor, Albert House, South Esplanade, St Peter Port, Guernsey GY1 1AJ, Guernsey | 100 | Indirect (group interest) |
| Brecon Debt Recovery Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Lipsy Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| LLC Next | 7 Dolgorukovskaya Street, 127006, Moscow, Russian Federation | 100 | Indirect (group interest) |
| Next (Asia) Limited | Suites 1404 to 1413 & Pt14, 1111 King's Road, Taikoo Shing, Hong Kong | 100 | Indirect (group interest) |
| NEXT (US), LLC | Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, United States | 100 | Indirect (group interest) |
| Next AV s.r.o. | Pribinova 8, 811 09, Bratislava, Slovakia | 100 | Indirect (group interest) |
| Next Beauty Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Brand Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Distribution Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Europe & North Africa Morocco SARL | Jean Jaures SARL, 49 rue Jean Jaurès, Quartier Gauthier, 6ème étage, Apt N° 12, Casablanca, Morocco | 100 | Indirect (group interest) |
| Next Europe & North Africa Tunisia SARL | Centre le Millennium, B30, 2046 Sidi Daoud, La Marsa, Tunis | 100 | Indirect (group interest) |
| Next Financial Services Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Germany GmbH | c/o BDO AG Wirtschaftsprüfungsgesellschaft, Zielstattstr. 40, 81379, Munich, Germany | 100 | Indirect (group interest) |
| Next Group plc | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Direct |
| Next Holding Wholesale Private Limited | 915, Unit No. 9, Corporate Park II, 9th floor, VN Purav Marg, Near Swastik, Chambers, Chembur, Mumbai, Maharashtra-MH, 400071, India | 100 | Indirect (group interest) |
| Next Holdings Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Manufacturing (Pvt) Limited | Phase 1, Ring Road 2, Export Processing Zone, Katunayake, Sri Lanka | 100 | Indirect (group interest) |
| Next Manufacturing Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Near East Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Pension Trustees Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Properties Ltd | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Retail (Ireland) Limited | 13–18 City Quay, Dublin 2, D02 ED70, Ireland | 100 | Indirect (group interest) |
| Next Retail Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Sourcing (UK) Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Next Sourcing Company Limited | House No. 14, St. No. 106, Phoum 8, Sangkat Wat Phnom, Khan Daun Penh, Phnom Penh, Cambodia | 100 | Indirect (group interest) |
| Next Sourcing Limited | Suites 1404 to 1413 & Pt14, 1111 King's Road, Taikoo Shing, Hong Kong | 100 | Indirect (group interest) |
| Next Sourcing Limited Shanghai Office | Room 901-902, 908-921, 9th Floor, Bldg. 3, No. 283 West Jianguo Road, Xuhui District, Shanghai | 100 | Indirect (group interest) |
| Next Sourcing Services (India) Private Limited | 207 Jaina Tower, 1 District Centre, Janakpuri, New Delhi, 110058, India | 100 | Indirect (group interest) |
| Next Sourcing Services Limited | Giant Business Tower, Level 4 & 5, Plot #3, Sector-3, Dhaka Mymensingh Road, Uttara Commercial Area, Dhaka, 1230 Bangladesh | 100 | Indirect (group interest) |
| Next Sourcıng İç Ve Dış Ticaret Limited Şirketi | Esentepe Mah. Büyükdere Cad. Ferko Signature Blok No: 175 İç Kapi No: 69 Şişli/Istanbul | 100 | Indirect (group interest) |
| Next-E-NA Portugal, Unipessoal LDA | R. dos Transitários 182 RCH, 4455–565 Matosinhos, Portugal | 100 | Indirect (group interest) |
| NSL Limited | Suites 1404 to 1413 & Pt14, 1111 King's Road, Taikoo Shing, Hong Kong | 100 | Indirect (group interest) |
| Paige Group Limited (The) | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Project Norwich Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| The Harborough Hare Holdings Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 74 | Indirect (group interest) |
| The Harborough Hare Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 74 | Indirect (group interest) |
| The Next Directory Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Ventura Group Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |
| Ventura Network Distribution Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 | Indirect (group interest) |

# C2. Investments (continued)

A full list of the Group's significant holdings in undertakings other than subsidiary undertakings as at 28 January 2023 is contained in the table below.

| Company name | Registered office address | % held by Group companies | Direct or indirect |
|---|---|---|---|
| Aubin & Wills Holdings Limited | 1110 Elliott Court, Coventry Business Park, Herald Avenue, Coventry CV5 6UB | 28 | Indirect (group interest) |
| Choice Discount Stores Limited | 14–14A Rectory Road, Hadleigh Benfleet, Essex SS7 2ND, UK | 49 | Indirect (group interest) |
| Pink Topco Limited | 22 Grenville Street, St. Helier, Jersey JE4 8PX, UK | 51 | Indirect (group interest) |
| Regent Bidco 1 Limited | C/O Alter Domus (Uk) Limited, 10th Floor, 30 St Mary Axe, London EC3A 8BF, UK | 44 | Indirect (group interest) |
| Swoon Editions Limited | 7 Bell Yard, London, WC2A 2JR, UK | 25 | Indirect (group interest) |
| VS Brands Holdings UK Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 51 | Indirect (group interest) |
| West Apparel UK Holdings Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 51 | Indirect (group interest) |

# C3. Other Debtors

| | 2023 £m | 2022 £m |
|---|---|---|
| Amounts due from subsidiary undertaking | **193.3** | 163.4 |
| Other receivables | **2.2** | 0.1 |
| | **195.5** | 163.5 |

# C4. Creditors due within one year

| | 2023 £m | 2022 £m |
|---|---|---|
| Amounts due to subsidiary undertaking | **818.2** | 549.4 |
| Accruals and other creditors | **–** | 4.7 |
| | **818.2** | 554.1 |

# C5. Share Capital, ESOT Reserve and Other Reserves

Details of the Company's share capital and share buybacks are given in Note 22. ESOT transactions are detailed in Note 25. Other reserves in the Company Balance Sheet of £985.2m (2022: £985.2m) represent the difference between the market price and the nominal value of shares issued as part of the capital reconstruction in 2002 on acquisition of Next Holdings Limited (formerly NEXT Group plc) which was subject to Section 131 Companies Act 1985 merger relief.

# C6. UK registered subsidiaries exempt from Audit

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 28 January 2023.

| Company name | Registered office address | % held by Group companies |
|---|---|---|
| AgraTech Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Lipsy Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Beauty Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Brand Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Distribution Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Holdings Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Manufacturing Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Near East Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Properties Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Next Retail Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| The Next Directory Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |
| Project Norwich Limited | Desford Road, Enderby, Leicester LE19 4AT, UK | 100 |

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date in accordance with Section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

# SHAREHOLDER INFORMATION

# HALF YEAR AND SEGMENT ANALYSIS (UNAUDITED)

| | First half £m | Second half £m | 52 weeks to Jan 2023 £m | First half restated[1] £m | Second half restated[1] £m | 52 weeks to Jan 2022 restated[1] £m |
|---|---|---|---|---|---|---|
| **Total sales** | | | | | | |
| NEXT Online | 1,427.2 | 1,579.4 | **3,006.6** | 1,504.8 | 1,559.9 | 3,064.7 |
| NEXT Retail | 880.5 | 984.6 | **1,865.1** | 540.1 | 892.3 | 1,432.4 |
| NEXT Finance | 133.7 | 140.7 | **274.4** | 119.2 | 130.2 | 249.4 |
| Total Platform | 59.3 | 85.1 | **144.4** | 17.7 | 21.4 | 39.1 |
| Joules | – | 32.8 | **32.8** | – | – | – |
| Property Management | 8.8 | 10.1 | **18.9** | 4.3 | 8.4 | 12.7 |
| International Retail, Sourcing and other | 36.1 | 36.2 | **72.3** | 29.6 | 33.9 | 63.5 |
| **Total Group sales** | **2,545.6** | **2,868.9** | **5,414.5** | 2,215.7 | 2,646.1 | 4,861.8 |
| | | | | | | |
| **Profit before tax** | | | | | | |
| NEXT Online | 220.9 | 246.4 | **467.3** | 324.7 | 279.7 | 604.4 |
| NEXT Retail | 100.6 | 139.9 | **240.5** | (17.8) | 124.8 | 107.0 |
| NEXT Finance | 86.3 | 84.2 | **170.5** | 67.8 | 81.7 | 149.5 |
| Total Platform including equity share | 3.7 | 15.6 | **19.3** | (0.3) | 7.2 | 6.9 |
| Joules | – | (4.1) | **(4.1)** | – | – | – |
| Property Management | 13.3 | 23.7 | **37.0** | 7.0 | 3.8 | 10.8 |
| International Retail, Sourcing and other | 15.1 | 13.0 | **28.1** | 14.6 | 13.9 | 28.5 |
| **Total segmental profit** | **439.9** | **518.7** | **958.6** | 396.0 | 511.1 | 907.1 |
| Recharge of interest | 15.6 | 18.8 | **34.4** | 15.7 | 15.2 | 30.9 |
| Other activities | (21.0) | (30.5) | **(51.5)** | (19.2) | (13.4) | (32.6) |
| Net finance cost | (33.9) | (38.3) | **(72.2)** | (45.8) | (36.5) | (82.3) |
| **Profit before tax** | **400.6** | **468.7** | **869.3** | 346.7 | 476.4 | 823.1 |

1. As explained in Note 1 Segment Analysis, the Lipsy segment has been consolidated within NEXT Online and Total Platform has been separated out into its segment. Therefore the prior year revenues and segmental profit has been restated to reflect this change in segments. This change has no impact on the Group's Total sales or total profit before tax.

# FIVE YEAR HISTORY (UNAUDITED)

| Period to January | IFRS 16 basis 2023 £m | IFRS 16 basis 2022 £m | IFRS 16 basis 2021 £m | IFRS 16 basis 2020 £m | IFRS 16 basis 2019 £m |
|---|---|---|---|---|---|
| *Underlying continuing business* | | | | | |
| Total sales | **5,414.5** | 4,861.8 | 3,625.9 | 4,361.8 | 4,220.9 |
| Statutory revenue | **5,034.0** | 4,625.9 | 3,534.4 | 4,266.2 | 4,167.4 |
| | | | | | |
| Operating profit | **941.5** | 905.4 | 444.5 | 853.9 | 841.1 |
| Net finance costs | **(72.2)** | (82.3) | (102.1) | (105.4) | (107.5) |
| **Profit before tax** | **869.3** | 823.1 | 342.4 | 748.5 | 733.6 |
| Taxation | **(158.6)** | (145.6) | (55.7) | (138.3) | (134.5) |
| **Profit after taxation** | **710.7** | 677.5 | 286.7 | 610.2 | 599.1 |
| | | | | | |
| **Total equity** | **1,165.1** | 1,010.0 | 660.9 | 441.5 | 366.2 |
| | | | | | |
| Shares purchased for cancellation | **3.5m** | 0.2m | 0.3m | 5.4m | 6.3m |
| | | | | | |
| Dividends per share – ordinary | **193.0p** | – | – | 57.5p | 165.0p |
| – special | – | 270.0p | – | – | – |
| | | | | | |
| **Basic Earnings Per Share** | | | | | |
| Underlying | **573.4p** | 530.8p | 223.3p | 472.4p | 441.7p |
| Total | **573.4p** | 530.8p | 223.3p | 472.4p | 441.7p |

# GLOSSARY

## Alternative Performance Measures (APMs) and other non-statutory measures

| APM Definition | Closest equivalent statutory measure | Purpose and reconciliation to closest statutory measure where applicable |
|---|---|---|
| **Average active customers**<br>Those customers who have purchased products using their Online account or received a standard account statement in the last 20 weeks. Customers can be either Online credit or cash customers. | None | Active customers have a strong correlation with interest income on the Finance P&L and help drive understanding on movements in income.<br><br>Reconciliation to the closest equivalent statutory measure not applicable. |
| **Average customer receivables/ debtor balance**<br>The average amount of money owed by all next**pay** and next**3step** customers less any provision for bad debt. This represents the total balances we expect to recover averaged across the relevant period.<br><br>This is referred to as "customer receivable" or "debtor balance". | None | Average debtor balance has a strong correlation with interest income on the Finance P&L and helps drive understanding of movements in income. It also helps to evaluate the overall health of the balance sheet for the Finance business.<br><br>The average debtor balance in 2023 was £1,179m (2022: £1,062m). The statutory accounts do not disclose the monthly debtor balance needed to calculate the average debtor balance. The year end balance is disclosed in Note 13 to the financial statements. |
| **Bad debt charge**<br>The charge taken in relation to the performance of our customer debtor book. This consists predominantly of providing for future defaults. | Impairment losses<br><br>Note 13 | Measurement of the quality of the Online debtor book/customer receivables. A lower bad debt charge indicates that the quality and recoverability of the balance is higher.<br><br>The bad debt charge is the total of the in-year impairment charge, less amounts recovered. In 2023 the total bad debt charge disclosed in the CEO report was £26m (2022: £27m).<br><br>In Note 13 the total Expected Credit Loss charge was £31.0m (2022: £28.6m) with the difference relating to recoveries on previously written off assets. |
| **Bought-in gross margin**<br>Difference between the cost of stock and initial selling price, expressed as a percentage of achieved total VAT exclusive selling prices. | None | Bought-in gross margin is a measure of the profit made on the sale of stock at full price. This is a key internal management metric for assessing category performance.<br><br>Reconciliation to closest equivalent statutory measure not applicable as full price sales not a statutory metric. |
| **Branch profitability**<br>Retail store total sales less cost of sales, payroll, controllable costs, occupancy costs and depreciation, and before allocation of central overheads. Expressed as a percentage of VAT inclusive sales. Net branch profit is a measure of the profitability on a store by store level. | None | Measurement of the Retail business profit by physical branch. Provides an indication of the performance of the store portfolio. This is based on costs which are directly attributable to the store. Therefore, it does not include costs such as central overheads which will be included in the statutory accounts.<br><br>Reconciliation to closest equivalent statutory measure is therefore not applicable. |
| **Cost of funding**<br>Interest is charged to the NEXT Finance business in respect of funding costs for the Online debtor balance (customer receivable).<br><br>It is calculated by applying the average Group interest rate (i.e. the external borrowing rate of the NEXT Group divided by the average NEXT Group borrowing excluding cash) to the average debtor/ customer balance. | None | Used by the business to evaluate the profitability of the Finance business. There is no statutory equivalent as this is a metric specific to how the Group manages its funding and cost allocations. In the year to January 2023 this has been calculated as:<br><br>Average Group interest = Interest cost/Average debt excluding cash = £29.5m/£858.5m = 3.4%<br><br>Then apply 3.4% to 85% of the Average Online customer balance of £1,179m (as we assume that 85% is funded by debt). This equates to a Cost of Funding charge of £34.4m (2022: £30.9m). |
| **Credit sales**<br>VAT exclusive sales from Online credit customers who have purchased using their online NEXT account, inclusive of any interest income charges and delivery charges, and after deducting any applicable promotional discounts. | None | Credit sales are a direct indicator of the performance and profitability of the Finance business.<br><br>Reconciliation to closest equivalent statutory measure not applicable as the statutory accounts split by business segment but not by the mechanism of customer payment. |

# GLOSSARY

## Alternative Performance Measures (APMs) and other non-statutory measures

| APM Definition | Closest equivalent statutory measure | Purpose and reconciliation to closest statutory measure where applicable |
|---|---|---|
| **Divisional operating profit**<br>Divisional profit before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 "Share-based payment" and unrealised foreign exchange gains and losses on derivatives which do not qualify for hedge accounting. | Segment profit | A direct indicator of the performance of each division making up the total Group operating profit. A commonly used metric that provides a useful method of performance comparison across the Group.<br>The divisional operating profits are the same as the Segment profits presented in Note 1 of the financial statements. |
| **Full price sales**<br>Total sales excluding items sold in our sale events, Total Platform sales and our Clearance operations and includes interest income relating to those sales. | Revenue – sale of goods | Full price sales are a direct indicator of the performance and profitability of the business.<br>They are based on Total Group Sales (defined below) excluding markdown (i.e. discounted). |
| **Interest income (NEXT Finance)**<br>The gross interest billed to next**pay** and next**3step** customers, before any deduction for unpaid interest on bad debt. | Revenue – credit account interest | Interest income for the Finance business is a direct indicator of the performance and profitability of the Finance business.<br>This is presented on the face of the Income Statement and Note 2 of the financial statements as "credit account interest". |
| **Like-for-like sales**<br>Change in sales from Retail stores which have been open for at least one full year. | None | This metric enables the performance of the Retail stores to be measured on a consistent year-on-year basis and is a common term used in the retail industry.<br>Reconciliation to closest equivalent statutory measure not applicable.<br>Note in the current year like-for-like sales on Retail stores are not being used as a KPI due to the disruption caused by COVID in the prior year. |
| **Net debt excluding leases**<br>Comprises cash and cash equivalents, bank loans, corporate bonds, and fair value hedges of corporate bonds but excludes lease debt.<br>Net debt is a measure of the Group's indebtedness. | None | This measure is a good indication of the strength of the Group's liquidity and is widely used by credit rating agencies.<br>Net debt excluding leases is reconciled to net debt including leases in Note 30 of the financial statements. |
| **NEXT operating profit** | Operating profit | While NEXT owns 74% of the equity in Joules, the Operating profit on a statutory basis, includes 100% of the loss from Joules.<br>For management purposes, the non controlling interest (i.e. the 26% which is not attributable to NEXT shareholders) is removed so that the NEXT Operating profit only reflects 74% of the results of Joules.<br>The NEXT operating profit and the statutory Operating profit is reconciled in Appendix 2. |
| **Net profit (NEXT Finance)**<br>The profit, including interest income and the bad debt charge, and after the allocation of central overheads and the cost of funding. | Profit before tax (for the Finance segment) | A measure of direct profitability of the Finance business.<br>The net profit for the Finance Business is presented in Note 1 to the financial statements. |
| **NEXT profit before tax** | Profit before tax | While NEXT owns 74% of the equity in Joules, the Profit before tax, on a statutory basis, includes 100% of the loss from Joules.<br>For management purposes, the non controlling interest (i.e. the 26% which is not attributable to NEXT shareholders) is removed so that the NEXT profit before tax only reflects 74% of the results of Joules.<br>The NEXT profit before tax and the statutory Profit before tax is reconciled in Appendix 2. |

| APM Definition | Closest equivalent statutory measure | Purpose and reconciliation to closest statutory measure where applicable |
|---|---|---|
| **NEXT Group pre-tax Earning per share** | None | NEXT Group pre-tax EPS is used as a bonus metric for the NEXT executive directors. This APM uses the profit before tax attributable to NEXT plc shareholders (NEXT profit before tax) as this is considered to represent a direct measure of the value which is attributable to the shareholders, excluding the impact of tax which is not directly controlled by the Board.<br><br>For January 2023 the number of shares used in this APM excludes those shares which were acquired from budgeted surplus cash. This is because the EPS enhancement from such shares was not included in the original targets set and so the directors should not benefit from this.<br><br>In January 2022 the profit before tax was based on a pre-IFRS 16 position. |
| **Online margin**<br>NEXT operating profit for the Online business after deducting lease interest as a percentage of the Trading sales which relate to the Online division. | None | A measure of the profitability of the Group. A commonly used metric that can be used to compare performance to other businesses.<br><br>The margin is based on the segmental operating profit, as disclosed in Note 1 of the financial statements, less allocation of lease interest, adjusted for the non controlling interest in Joules, as a percentage of the Trading Sales for that segment.<br><br>A reconciliation between Total Group sales and statutory revenue is provided in Note 1 of the financial statements.<br><br>Net margin measures whether profitability is changing at a higher or lower rate relative to revenue. |
| **Retail margin**<br>Operating profit after deducting lease interest as a percentage of the Trading sales which relate to the Retail division. | None | A measure of the profitability of the Group. A commonly used metric that can be used to compare performance to other businesses.<br><br>The margin is based on the segmental operating profit, as disclosed in Note 1 of the financial statements, less allocation of lease interest, as a percentage of the Trading Sales for that segment.<br><br>A reconciliation between Total Group sales and statutory revenue is provided in Note 1 of the financial statements.<br><br>Net margin measures whether profitability is changing at a higher or lower rate relative to revenue. |
| **Return on capital employed – ROCE (NEXT Finance)**<br>The NEXT Finance net profit (after the interest charge relating to the cost of funding), divided by the average debtor balance. | None | A commonly used metric that can be used to compare performance to other financial businesses.<br><br>It measures the profit (i.e. return) relative to the amount of capital employed. The higher the ROCE, the greater the return for the capital employed in the business.<br><br>The ROCE for NEXT Finance in the year to January 2023 was calculated by dividing the Operating profit for segment of £170.5m by the average customer receivable balance of £1,179m. As a percentage, this is 14.5% (FY22 restated due to the change in Lipsy segmental reporting: 14.1%).<br><br>The Operating profit for the segment is disclosed in Note 1 to the financial statements. |

# GLOSSARY

## Alternative Performance Measures (APMs) and other non-statutory measures

| APM Definition | Closest equivalent statutory measure | Purpose and reconciliation to closest statutory measure where applicable |
|---|---|---|
| **Total sales**<br>Total sales are a segment level measure of sales being VAT exclusive full price and markdown sales, including the full value of commission-based sales, interest income (as described and reconciled in Note 1 of the financial statements) and service income from our Total Platform business. | Statutory revenue | Total Sales are a direct indicator of the performance and profitability of the segment.<br><br>Total Sales are reconciled to Statutory revenue in Note 1 to the financial statements. |
| **Total Trading sales/Total Group sales**<br>Total Trading sales are the aggregation of Total sales from our core trading segments of Retail, Online and Finance.<br><br>Total Group sales are the aggregation of Total sales for all of the Group segments. | Statutory revenue | Total Trading Sales are a direct indicator of the performance and profitability of the business from the Online, Retail and Finance business.<br><br>Total Group Sales are a direct indicator of the performance and profitability of the entire business.<br><br>Total Trading Sales and Total Group sales are reconciled to Statutory revenue in Note 1 to the financial statements. |

# NOTICE OF MEETING

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000.**

**If you have sold or otherwise transferred all your NEXT plc (NEXT and/or the Company) shares, please send this document, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.**

Notice is given that the Annual General Meeting (AGM) of NEXT will be held at Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW on Thursday 18 May 2023 at 9.30 am. The Company will take into account any Government guidance or legislation in force at the time of the AGM and will implement any measures it believes necessary to protect the health and safety of attendees. Any changes to the format of the AGM will be communicated to shareholders through our website at nextplc.co.uk/investors/shareholderinformation/company-meetings and, where appropriate, by stock exchange announcement.

Shareholders may submit questions in advance on resolutions to be put to the AGM by emailing investors@next.co.uk. Questions submitted by 5.00 pm on 17 May 2023 will be answered at the meeting as appropriate.

The following resolutions will be proposed at the AGM, resolutions 1 to 18 as ordinary resolutions and 19 to 23 as special resolutions. **Further information on these resolutions can be found in Appendix 1 to this Notice.** Biographies of the directors are shown on pages 114 to 116 of the Annual Report.

1 To receive and adopt the accounts and reports of the directors and auditor for the period ended 28 January 2023.

2 To approve the Directors' Remuneration Policy, the full text of which is contained in the Directors' Remuneration Report and set out on pages 138 to 149.

3 To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) set out on pages 133 to 162.

4 To declare a final dividend of 140 pence per ordinary share.

To elect the following director appointed by the directors since the last AGM who is seeking election in accordance with the Company's Articles of Association:

5 Jeremy Stakol.

To re-elect the following directors who are seeking annual re-election in accordance with the UK Corporate Governance Code:

6 Jonathan Bewes.

7 Soumen Das.

8 Tom Hall.

9 Tristia Harrison.

10 Amanda James.

11 Richard Papp.

12 Michael Roney.

13 Jane Shields.

14 Dame Dianne Thompson.

15 Lord Wolfson.

16 To re-appoint PricewaterhouseCoopers LLP as auditor of the Company, to hold office until the conclusion of the 2024 AGM of the Company.

17 To authorise the Audit Committee, on behalf of the Board, to set the remuneration of the Company's auditor in respect of its appointment for the period ending at the conclusion of the next AGM of the Company.

18 Directors' authority to allot shares that the directors be authorised, generally and unconditionally, to allot equity securities (as defined in Section 560 of the Companies Act 2006 (the 2006 Act)) in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

a. up to a maximum nominal amount of £4,200,000 (as reduced by any equity securities allotted under paragraph (b) below); and

b. up to a maximum nominal amount of £8,500,000 (as reduced by any equity securities allotted under paragraph (a) above) in connection with an offer by way of a rights issue;

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise considers necessary, and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

This authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution, or, if earlier, at the close of business on 18 August 2024. All previous unutilised authorities under Section 551 of the 2006 Act shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 551(7) of the 2006 Act by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted on or after that date).

19 General disapplication of pre-emption rights

That, subject to resolution 18 being passed:

a. the directors be given power to allot equity securities (as defined in the 2006 Act) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale;

b. the power under paragraph (a) above shall be limited to the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (b) of resolution 18, by way of a rights issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary, and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

# NOTICE OF MEETING

c. the power under paragraph (a) above shall be limited to, in the case of the authority granted under paragraph (a) of resolution 18 and/or in the case of treasury shares, to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (b) above) up to a nominal amount not exceeding in aggregate £1,287,000 representing 10% of the issued ordinary share capital;

d. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 18 August 2024; and

e. all previous unutilised authorities under Sections 570 and 573 of the 2006 Act shall cease to have effect (save to the extent that they are exercisable by reason of any offer or agreement made prior to the date of this new resolution which would or might require shares to be allotted on or after that date).

20 Additional disapplication of pre-emption rights that, subject to resolutions 18 and 19 being passed:

a. the directors be given the power to allot, in addition to any power granted under resolution 19, equity securities (as defined in the 2006 Act) for cash under the authority granted under paragraph (a) of resolution 18 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale;

b. the power under paragraph (a) above shall be:

(i) limited to the allotment of equity securities having a nominal amount not exceeding in aggregate £1,287,000 representing 10% of the issued ordinary share capital; and

(ii) used only for the purposes of financing (or refinancing, if the authority is to be used within twelve months after the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice;

c. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business on 18 August 2024; and

d. other than in respect of authorities granted pursuant to resolution 19, all previous unutilised authorities under Sections 570 and 573 of the 2006 Act shall cease to have effect (save to the extent that they are exercisable by reason of any offer or agreement made prior to the date of this new resolution which would or might require shares to be allotted on or after that date).

21 On-market purchases of own shares

That in accordance with the 2006 Act, the Company be granted general and unconditional authority to make market purchases (as defined in Section 693 of the 2006 Act) of any of its own ordinary shares on such terms and in such manner as the directors may determine provided that:

a. the authority conferred by this resolution shall be limited to the lesser of 19,297,000 ordinary shares of 10p each and no more than 14.99% of the issued ordinary shares outstanding at the date of the AGM, such limit to be reduced by the number of shares purchased pursuant to the authority granted at resolution 22 below;

b. the minimum price which may be paid for ordinary shares (exclusive of expenses) is 10p per ordinary share;

c. the maximum price which may be paid for each ordinary share (exclusive of expenses) is an amount not more than the higher of: (i) 105% of the average of the middle market price of the ordinary shares of the Company according to the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share of the Company and the highest current independent bid for an ordinary share of the Company as derived from the London Stock Exchange Trading System;

d. this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at the close of business 18 August 2024;

e. the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract; and

f. all existing authorities for the Company to make market purchases of its own ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

22 Off-market purchases of own shares

That, in accordance with Section 694 of the 2006 Act, the proposed programme agreements to be entered into between the Company and any of Goldman Sachs International, UBS AG London Branch, BNP Paribas and Barclays Bank plc (the Banks) (in the form produced to this meeting and initialled by the Chairman for the purpose of identification) (the Programme Agreements) be and are approved and the Company be and is authorised to enter into the Programme Agreements and all and any forward trades which may be effected or made from time to time for the off-market purchase by the Company of its ordinary shares of 10 pence each under or pursuant to the Programme Agreements, as more fully described on pages 252 and 253. The authority conferred by this special resolution shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, at close of business on 18 August 2024 (except in relation to the purchase of ordinary shares under any forward trade effected or made before the expiry of such authority and which might be completed wholly or partly after such expiry).

23 Notice of general meetings

That a general meeting (other than an AGM) may be called on not less than 14 clear days' notice.

By order of the Board

**Ian Blackwell**
Company Secretary
Registered Office: Desford Road, Enderby, Leicester LE19 4AT

14 April 2023

# NOTICE OF MEETING
## Appendix 1

### Explanatory notes to resolutions

#### 1. To receive and adopt the report and accounts

Shareholders are asked to receive and adopt the Strategic Report, Directors' Report, and the financial statements for the period ended 28 January 2023, together with the Auditors' Report.

#### 2. To approve the Directors' Remuneration Policy

The Directors' Remuneration Policy is being submitted for shareholder approval as part of the normal three-year cycle. No changes are proposed from the current Policy; details are set out on pages 134 to 136.

Subject to shareholder approval, the Policy, in the form set out on pages 138 to 149 of the Annual Report for the year ended 28 January 2023, will be effective from the conclusion of this AGM.

#### 3. To approve the Directors' Remuneration Report

The Directors' Remuneration Report sets out the pay and benefits received by each of the directors for the period ended 28 January 2023 and is subject to an advisory vote by shareholders. The Report (excluding the Directors' Remuneration Policy) is set out on pages 133 to 162 of the Annual Report for the period ended 28 January 2023.

#### 4. To declare a final dividend of 140 pence per ordinary share

The directors recommend that a final dividend of 140 pence per share be paid on 1 August 2023 to shareholders on the register of members at close of business on 7 July 2023. This resolution relates only to this dividend. If, in line with the Company's policy of returning surplus cash to shareholders, the directors decide to pay special dividends any such dividends will be paid by the directors as interim dividends. The announcement of any dividend will clearly indicate whether it is a special dividend or not. The Trustee of the NEXT ESOT has waived dividends paid in the year on shares held by it, refer to Note 25 of the financial statements.

#### 5–15. Directors

In accordance with the UK Corporate Governance Code 2018, all directors will stand for election or re-election at this year's AGM.

Directors' biographies are set out on pages 114 and 116 of the Annual Report and provide a summary of the range of skills, knowledge and experience of each director.

Following a formal performance evaluation, the Chairman confirms that each director has demonstrated that they continue to be an effective and valuable member of the Board and that they remain committed to their role (including making sufficient time available for Board and Committee meetings and other duties).

The Board is satisfied that each non-executive director offering themselves for election or re-election is independent in both character and judgement, and that their experience, knowledge and other business interests enable them to contribute significantly to the work and balance of the Board.

#### 16 and 17. Appointment and remuneration of auditor

On the recommendation of the Audit Committee, the Board proposes that PwC be reappointed as auditor of the Company. Resolution 17 proposes that the auditors' remuneration be determined by the Audit Committee.

#### 18. Renewal of the powers of directors to allot shares

Ordinary resolution 18(a) seeks authority to allow the directors to allot ordinary shares up to a maximum nominal amount of £4,200,000, representing approximately one third of the Company's existing issued share capital, excluding treasury shares, as at 28 March 2023. In accordance with institutional guidelines, resolution 18(b) will also allow directors to allot further ordinary shares, in connection with a pre-emptive offer by way of a rights issue, up to a total maximum nominal amount of £8,500,000, representing approximately two thirds of the Company's existing issued share capital, excluding treasury shares, as at that date. As at 28 March 2023 (being the latest practicable date prior to publication of this document) the Company's issued share capital amounted to £12,873,726 comprising 128,737,260 ordinary shares of 10 pence each. No shares were held in treasury. The directors have no present intention of exercising this authority, however, the Board wishes to ensure that the Company has maximum flexibility in managing the Group's capital resources. The authority sought under this resolution will expire at the conclusion of the AGM in 2024 or, if earlier, 18 August 2024.

#### 19 and 20. Authority to disapply pre-emption rights

In special resolution 19, the directors are seeking authority to allot equity securities for cash without first offering them to existing shareholders in proportion to their holdings. This resolution limits the aggregate nominal value of ordinary shares which may be issued by the directors on a non pre-emptive basis to £1,287,000, representing 10% of the issued ordinary share capital of the Company as at 28 March 2023. This authority also allows the directors, within the same aggregate limit, to sell for cash, shares that may be held by the Company in treasury.

Special resolution 20 seeks separate and additional authority to allot up to an additional 10% of the issued ordinary share capital of the Company on a non pre-emptive basis in connection with an acquisition or specified capital investment (within the meaning given in the Pre-Emption Group's 2022 Statement of Principles) which is announced at the same time as the allotment, or which has taken place in the twelve month period before and is disclosed in the announcement of the allotment.

The directors have no present intention to exercise the powers sought by resolutions 19 or 20. If the powers sought by resolutions 19 or 20 are used in relation to a non-pre-emptive offer, the directors confirm their intention to follow the shareholder protections in paragraph 1 of Part 2B of the Pre-emption Group's Statement of Principles published in November 2022 and, where relevant, follow the expected features of a follow-on offer as set out in paragraph 3 of Part 2B of the Pre-emption Group's Statement of Principles. The authority sought under resolutions 19 and 20 will expire at the AGM in 2024 or, if earlier, 18 August 2024.

# NOTICE OF MEETING

## Appendix 1

### 21. On-market purchase of the Company's own shares

NEXT has been returning capital to its shareholders through share repurchases as well as special and ordinary dividends since March 2000 as part of its strategy for delivering sustainable long term returns to shareholders. Over this period, and up to 28 March 2023, NEXT has returned over £4.5bn to shareholders by way of share buybacks and over £4.3bn in dividends, of which £1.2bn comprised special dividends. This buyback activity has enhanced Earnings Per Share, given shareholders the opportunity for capital returns (as well as dividends) and has been transparent to the financial markets. Share buybacks have not been made at the expense of investment in the business. Over the last five years, NEXT has invested over £790m in capital expenditure to support and grow the business.

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

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

The Company has no warrants in issue in relation to its shares and no options to subscribe for its shares outstanding. Exercise of outstanding employee share options and share awards are generally satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 25 to the financial statements).

The renewed authority will expire at the AGM in 2024 or, if earlier, 18 August 2024.

### 22. Off-market purchases of own shares

The directors consider that share buybacks are an important means of returning value to shareholders and maximising sustainable long term growth in Earnings Per Share. Contingent contracts for off-market share purchases offer a number of additional benefits compared to on-market share purchases:

- Contingent contracts allow the Company to purchase shares at a discount to the market price prevailing at the date each contract is entered into. No shares have been bought back under contingent purchase contracts pursuant to the authority granted at the 2022 AGM up to 28 March 2023.
- Low share liquidity can often prevent the Company from purchasing sufficient numbers of shares on a single day without risk of affecting the prevailing market price. Contingent contracts enable the Company to purchase shares over time without risk of distorting the prevailing share price, and also spread the cash outflow.
- Contingent contracts entered into prior to any closed period allow the Company to take delivery of shares during these periods.
- Competitive tendering involving up to five banks is used which minimises the risk of hidden purchase costs. The pricing mechanism ensures the Company retains the benefit of declared and forecast dividends.
- The Company would also have the option to set a suspension price in individual contracts whereby they would automatically terminate if the Company's share price was to fall.

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

Special resolution 20, passed at the Company's 2022 AGM, granted authority to the Company to make off-market purchases of shares for cancellation under contingent purchase contracts to be entered into with any of Goldman Sachs International, UBS AG London Branch, BNP Paribas and Barclays Bank plc. This authority was limited to a maximum of 3 million shares and expires on the earlier of the date of the 2023 AGM or 19 August 2023. Pursuant to that authority and up to 28 March 2023, no shares were bought back under contingent purchase contracts.

Sections 693 and 694 of the 2006 Act provide that the terms of any contract to make off-market purchases or contingent purchases of its shares must be approved by shareholders. The Company also typically does not purchase its shares during the period commencing 30 days before the announcement of its interim results and full year results in September and March respectively each year a Closed Period. In the absence of a Programme Agreement (as defined above), these Closed Periods inevitably reduce the number of shares the Company is able to purchase.

In order to achieve maximum flexibility in its share purchase activities, the Company is permitted outside of Closed Periods to enter into irrevocable and non-discretionary programmes and/or contingent forward purchase contracts which would allow it to buy shares during Closed Periods. As in previous years, the Company intends to enter into new agreements with each of the Banks, under which the Company may (but is not obliged to) enter into contingent forward trades (Contingent Forward Trades or CFT) from time to time.

The terms of a CFT will be agreed between the Company and the Bank before it is entered into. The Company is committed to purchase shares under a CFT on the day it is executed subject to the terms of the Programme Agreement. The terms of each CFT will provide for the Company to purchase a fixed number of shares each week over a period of between 20 to 30 weeks. The maximum number of shares that can be purchased under each CFT is limited to 30,000 shares per week.

Whether or not the Company purchases shares in a particular week during the term of a CFT is dependent upon the Company's share price either not rising to, or above, a level (the "Upper Suspension Level") or, if applicable, falling to or below a level (the "Lower Suspension Level" and together with the Upper Suspension Level, the "Suspension Levels"). The Suspension Levels and duration are determined by the Company and are set at the time the CFT is entered into. The Upper Suspension Level must be set between 104% and 110% of the Company's share price at the start of the CFT. If the Company chooses to incorporate a Lower Suspension Level, it must be set between 80% and 95% of the price at the start of the CFT. The inclusion of a Lower Suspension Level would help mitigate the Company's financial commitment under a CFT if its share price was to fall below this level after the CFT had been executed. If the Lower Suspension Level is not included, the level of discount to the market share price would be higher.

The price at which the Company may purchase shares during the term of a CFT (the "Forward Price") is fixed at the start of the CFT. The Forward Price is determined by the Bank with reference to the volume weighted average price for shares traded in NEXT on the day the CFT is entered into. The Forward Price is subject to a maximum of 99% of the share price at the start of the contract and a minimum of 10 pence (the par value of an ordinary share). The minimum and maximum period between entering a CFT and shares being purchased is 5 days and 30 weeks respectively. The Company will announce the details of each CFT on the day it is entered into and any subsequent termination via the Financial Conduct Authority's Regulatory News Service. This structure would allow the Company to purchase shares at a discount to the market price (as at the time each CFT commences), for so long as the Suspension Levels are not reached, without breaching the Listing Rules. If any Suspension Level is reached, the CFT terminates automatically at that time and no further shares would be purchased under that contract.

Under Sections 693 and 694 of the 2006 Act, the Programme Agreements and Contingent Forward Trades are contingent purchase contracts to purchase shares by the Company off-market. Accordingly, resolution 22, which will be proposed as a special resolution, seeks shareholder approval of the terms of the Programme Agreements to be entered into between the Company and each of the Banks. The Programme Agreements will have a duration of the shorter of the period to the date of the next AGM to be held in 2024 and 18 August 2024 and will incorporate the terms of an ISDA Master Agreement and Schedule. The Programme Agreements will be entered into and each CFT will be effected outside a Closed Period but shares may be purchased by the Company during a Closed Period.

Should shareholder approval be granted, any number of CFT may be effected with the Banks at any time, provided that:

- the total maximum number of shares which the Company is permitted to purchase pursuant to this authority would be 3 million, representing circa 2.3% of its issued share capital at 28 March 2023;
- the total cost of shares that the Company would be permitted to purchase pursuant to this authority may not exceed £200m (including costs);
- the Forward Price may not exceed 105% of the average of the middle market price of a share according to the Daily Official List of the London Stock Exchange for the 5 business days immediately preceding the day on which the share is purchased;
- the Forward Price will be no more than 99% of the share price at the time the CFT was effected;
- the minimum price that can be paid for any share is 10p; and
- only one CFT will be entered into on any particular day.

Shares purchased under the Programme Agreements will reduce the number of shares that the Company may purchase under any authority granted at the AGM on 18 May 2023 for on-market purchases. No shares will be purchased under that authority on the same day that a CFT is entered into. The authority granted to the Company under this resolution will expire at the conclusion of the 2024 AGM or on 18 August 2024, whichever is the earlier, unless such authority is renewed prior to that time (except in relation to the purchase of shares under any CFT effected before the expiry of such authority and which might be completed wholly or partly after such expiry). The purchase of shares under the Programme Agreements will always be physically settled by delivery of shares to the Company (except in the case of certain events of default or termination events).

A copy of each of the Programme Agreements will be available for inspection at the AGM on 18 May 2023. Copies will also be available for inspection at the Company's registered office at Desford Road, Enderby, Leicester LE19 4AT and at the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY during usual business hours from the publication of this Notice of Meeting until the close of the AGM.

The Company has no warrants in issue in relation to its shares and no options to subscribe for its shares outstanding. Exercise of all outstanding employee share options and share awards will generally be satisfied by the transfer of market-purchased shares from the ESOT (refer to Note 25 to the financial statements).

## 23. Notice of general meetings

In accordance with the Companies Act 2006 (the "2006 Act"), the notice period for general meetings (other than an AGM) is 21 clear days' notice unless the Company:

(i) has gained shareholder approval for the holding of general meetings on 14 clear days' notice by passing a special resolution at the most recent AGM; and

(ii) offers the facility for all shareholders to vote by electronic means.

The Company would like to preserve its ability to call general meetings (other than an AGM) on 14 clear days' notice. This shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole.

Resolution 23 seeks such approval and, should this resolution be approved, it will be valid until the end of the next AGM. This is the same authority that was sought and granted at last year's AGM.

## Recommendation

The Board is of the opinion that all resolutions which are to be proposed at the 2023 AGM are in the best interests of its shareholders as a whole and, accordingly, unanimously recommend that they vote in favour of all the resolutions as the directors intend to do in respect of their own beneficial shareholdings.

# NOTICE OF MEETING

## Meeting Formalities and Voting

### Attending the Annual General Meeting

To be entitled to attend, speak and vote at the AGM and for the purposes of determining the number of votes they may cast, shareholders must be registered in the register of members of the Company as at 6.30 pm on 16 May 2023 or, if the meeting is adjourned, at 6.30 pm on the day which is two working days before the adjourned meeting.

The resolutions being proposed are a very important part of the governance of the Company and all shareholders are urged to vote.

In line with best practice, voting on all resolutions at the 2023 AGM will be by way of a poll. On a poll, every member present in person or by proxy, has one vote for every ordinary share held or represented.

The directors believe a poll is most representative of shareholders' voting intentions because shareholders' votes are counted according to the number of shares held, and the proxy vote is added to the votes of shareholders present so that all votes are taken into account. The procedures for the poll votes will be explained during the AGM.

In respect of resolution 22 on off-market share purchase contracts, the 2006 Act provides that this resolution will not be effective if any member of the Company holding shares to which it relates (i.e. shares which may be purchased pursuant to the Programme Agreements) voted for the resolution and the resolution would not have been passed if they had not done so. Therefore, NEXT intends to disregard any poll votes which are cast in favour of resolution 22 attaching to 3 million shares (being the total maximum number of shares which the Company is permitted to purchase pursuant to the Programme Agreements) from both the total number of votes cast in favour of this resolution and the total number of votes cast.

The total number of the Company's issued share capital on 28 March 2023, which is the latest practicable date before the publication of this Notice, is 128,737,260 ordinary shares. All of the ordinary shares carry one vote each and there are no shares held in treasury.

### Voting and proxies

Whether or not you intend to attend the AGM in person, please complete and return the Form of Proxy to Equiniti, to arrive not later than 9.30 am on 16 May 2023 (or 48 hours before any adjourned meeting). If you complete and return a proxy form you can still attend and vote at the AGM if you wish.

You may submit your proxy electronically by accessing our registrar's website www.sharevote.co.uk. You will require your unique Voting ID, Task ID and Shareholder Reference Number as printed on the Form of Proxy. The use by members of the electronic proxy appointment service will be governed by the terms and conditions of use which appear on the website. Electronic proxies must be completed and lodged in accordance with the instructions on the website by no later than 9.30 am on 16 May 2023.

If you are unable to attend in person, you are strongly encouraged to appoint a proxy and return the completed Form of Proxy by the specified deadline.

A shareholder who is entitled to vote at the AGM may appoint one or more proxies to vote instead of him/her, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not also be a shareholder of the Company and may vote on any other business which may properly come before the meeting.

The statements of the rights of members in relation to the appointment of proxies in the above paragraphs and in the paragraph headed "CREST voting facility" below can only be exercised by registered members of the Company and do not apply to a Nominated Person. Nominated persons should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder (i.e. the first named joint holder recorded in the Company's share register) will be accepted.

A member who appoints as their proxy someone other than the Chairman of the Meeting, should ensure that the proxy is aware of the voting intention of the member. If no voting instruction is given, the proxy has discretion on whether and how to vote.

A person to whom this Notice is sent who is a person nominated under Section 146 of the 2006 Act to enjoy information rights (a "Nominated Person") may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

### CREST voting facility

Those shareholders who hold shares through CREST may choose to appoint a proxy or proxies using CREST for the AGM to be held on 18 May 2023 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in this Notice. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual is available at euroclear.com.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## Corporate representatives

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

## Right to ask questions

Shareholders may submit questions in advance on the resolutions to be put to the AGM by emailing investors@next.co.uk. Any shareholder attending the meeting has the right to ask questions. The Company will answer any such question relating to the business being dealt with at the AGM but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (ii) the answer has already been given on a website in the form of an answer to a question, or (iii) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

## Data protection statement

Your personal data includes all data the Company holds which relates to you as a shareholder, including your name and contact details, the votes you cast and your Shareholder Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's registrar) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise. A copy of the Company's privacy policy can be found at www.nextplc.co.uk/site-services/privacy-and-cookies.

## Documents available for inspection

Copies of the following documents will be available for inspection at the Company's registered office during usual business hours and for 15 minutes prior to and for the duration of the AGM:

- A copy of each executive director's contract of service and each non-executive director's letter of appointment.
- The Programme Agreements pursuant to resolution 22.

Copies will also be available for inspection at the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY during usual business hours, from publication of this Notice until the close of the AGM.

## Company website

A full copy of the Annual Report (which includes this Notice), together with those for prior years, and other information required by Section 311A of the 2006 Act can be found at www.nextplc.co.uk.

Under Section 527 of the 2006 Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the 2006 Act. The Company may not require the members requesting such website publication to pay its expenses in complying with Sections 527 or 528 of the 2006 Act, and it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the 2006 Act to publish on its website.

You may not use any electronic address provided in this Notice to communicate with the Company for any purposes other than those expressly stated.

# OTHER SHAREHOLDER INFORMATION

## Registered office

Desford Road, Enderby, Leicester LE19 4AT.

Registered in England and Wales, company no. 4412362.

## Annual General Meeting

The AGM will be held at Leicester Marriott Hotel, Smith Way, Grove Park, Leicester LE19 1SW at 9.30 am on Thursday 18 May 2023. The Notice of Meeting on pages 249 to 255 sets out business to be transacted.

The safety of our shareholders is our main priority. We will not permit behaviour that may interfere with anyone's security or safety or the good order of the meeting. Anyone who does not comply may be removed from the meeting.

## Discount voucher

The Company offers a discount voucher to any first named, registered shareholder holding a minimum number of 100 ordinary shares as at 1 April each year. The shareholder discount voucher entitles the recipient or their immediate family to a 25% discount against most purchases at any one time of full price NEXT merchandise in NEXT Retail stores. There is no limit on the value of goods that can be purchased at that time. The voucher expires on 31 October of the year in which it was issued. It cannot be used in conjunction with any other discount voucher or offer, nor can it be used for the purchase of gift cards, Sale merchandise, electrical goods, non-NEXT branded goods or purchases from NEXT Online (unless ordered through one of our Retail stores). Shareholders holding shares in nominee or ISA accounts are also eligible, but must request the voucher through their nominee or ISA account manager who should contact the Company Secretary's office (companysecretariat@next.co.uk).

## Registrars and transfer office

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Telephone +44 (0) 371 384 2164 (if calling from outside the UK, please ensure the country code is used). Lines are open 8.30 am to 5.30 pm Monday to Friday.

## Shareholder enquiries

The Company share register is maintained by Equiniti ("EQ"). Please contact them online at www.shareview.co.uk or using the contact details above if you have any enquiries about your NEXT shareholding including the following matters:

- change of name and address;
- loss of share certificate, dividend warrant or dividend confirmation;
- if you receive duplicate sets of Company mailings as a result of an inconsistency in name or address and wish, if appropriate, to combine accounts; and
- help on how to register your email address to receive shareholder communications electronically.

The Shareview Portfolio service from EQ gives you more online information about your NEXT shares and other investments. For direct access to information held for you on the share register, including recent balance movements and a daily valuation of investments held in your portfolio, visit www.shareview.co.uk.

For shareholders with disabilities EQ provides the following:

- if requested future communications produced by them will be sent in the appropriate format; and
- hearing loop facilities in their buildings for use by visiting shareholders.

You can also contact EQ by using the Relay UK website at www.relayuk.bt.com

## CREST

The Company's ordinary shares are available for electronic settlement.

## Payments of dividends to mandated accounts

Shareholders who do not at present have their dividends paid directly into a bank or building society may wish to do so. A mandate form is available to download from the NEXT website at www.nextplc.co.uk or from EQ, telephone +44 (0) 371 384 2164.

## Forward looking statements

This Report and Accounts contains statements which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. Forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These statements reflect NEXT's current expectations concerning future events but actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to those risks described in "Risks & Uncertainties" on pages 74 to 82 failure by NEXT to predict accurately customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of NEXT's Brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; insufficient consumer interest in NEXT Online; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial or equity markets. These forward looking statements do not amount to any representation that they will be achieved. They involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

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The paper is Carbon Balanced with World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land.

Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere, referred to as REDD (Reduced Emissions from Deforestation and forest Degradation). This is now recognised as one of the most cost-effective and swiftest ways to arrest the rise in atmospheric $CO_2$ and global warming effects. Additional to the carbon benefits is the flora and fauna this land preserves, including a number of species identified at risk of extinction on the IUCN Red List of Threatened Species.

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