

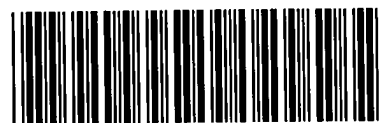
NEXT Distribution Limited

Reports and Financial Statements

28 January 2017

Registered No: 3045421

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Reports and Financial Statements

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Registered in England & Wales

Desford Road
Enderby
Leicester
LE19 4AT

Strategic Report

The Directors present their annual report and audited accounts for the 52 week period ended 28 January 2017.

Results

The profit for the period, after taxation, amounted to £48,799,000 (53 week period ended 30 January 2016: £48,604,000).

The principal activity of the Company during the period was the warehousing and distribution of clothing and home furnishing products on behalf of the NEXT Group. Next Distribution Limited is a private company limited by share.

	2017 £000	2016 £000	
Turnover	462,730	467,094	-0.9%
Operating profit	60,455	60,933	-0.8%
Average number of employees	6,399	6,493	

Turnover has remained stable reflecting sales made by NEXT Retail Limited, the Company's principal customer. The directors consider the trading results to have been satisfactory.

Business strategies and objectives

The Company's principal objective is to provide efficient and effective warehousing and distribution activities for the NEXT Group. The directors aim to achieve this objective through efficient stock management and cost control throughout its warehousing and distribution activities, and by ensuring that excellent customer service and satisfaction levels are maintained for both Retail and Directory customers.

Risks and uncertainties

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

Description of risk or uncertainty

How the risk or uncertainty is managed or mitigated

Management team

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

Remuneration packages are reviewed at least annually and formulated to retain and motivate these employees, including long term incentive schemes.

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

Strategic Report (continued)

Warehousing and distribution

NEXT regularly reviews the warehousing and distribution operations that support the NEXT businesses. Risks include business interruption due to physical damage, access restrictions, breakdowns, capacity shortages, IT systems failure, inefficient processes and third-party failures.

Planning processes are in place to ensure there is sufficient warehouse handling capacity for expected future business volumes over the short and longer terms.

Service levels, warehouse handling, inbound logistics and delivery costs are monitored continuously to ensure goods are delivered to our warehouses, Retail stores and Directory customers in a timely and cost-efficient manner.

Business continuity plans and insurance are in place to mitigate the impact of business interruption.

Information security, business continuity and cyber risk

NEXT is dependent upon the continued availability and integrity of its IT systems, which must record and process substantial volumes of data and conduct inventory management accurately and quickly. The Group's systems require continuous enhancement and investment to prevent obsolescence and maintain responsiveness. The threat of unauthorised or malicious attack is an on-going risk, the nature of which is constantly evolving and becoming more sophisticated.

Systems' vulnerability and penetration testing are carried out regularly to ensure that data is protected from corruption or unauthorised access or use. Critical systems are reviewed and tested periodically to ensure they have back up facilities and business continuity plans in place; these are updated on an ongoing basis to reflect business risk.

IT risks are also managed through the application of internal policies and change management procedures, contractual service level agreements with third-party suppliers, and IT capacity management.

As the nature of cyber attack risk is constantly changing and becoming ever more sophisticated, NEXT continually works towards improving mitigating controls in this critical area.

Employees

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

Equal opportunities and diversity

NEXT Distribution Limited is an equal opportunities employer and will continue to ensure it offers career opportunities without discrimination. Full consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities and in accordance with relevant legislation. The Company has continued the employment wherever possible of any person who becomes disabled during their employment, providing assistance and modifications where possible. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

Training and development

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

Strategic Report (continued)

Employee communication

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

Pension provision

The Company's employees are eligible to participate in the NEXT Group Pension Plan which provides a valuable pension benefit to its participating employees, details of which are set out in Note 13 to the financial statements.

Social and environmental matters

NEXT is committed to the principles of responsible business. This means addressing key business related social, ethical and environmental matters in a way that aims to bring value to all of its stakeholders, including customers and shareholders. Continuous improvement lies at the heart of NEXT's approach and is achieved by acting in an ethical manner, developing positive relationships with suppliers, recruiting and retaining successful and responsible employees, taking responsibility for our impact on the environment and through contributions to charities and community organisations.

Health and safety

NEXT recognises the importance of health and safety and its management is designed to contribute to business performance. Policies and procedures are reviewed and audited regularly to make safety management more robust and current.

The Company's objective is to manage all aspects of its business in a safe manner and take practical measures to ensure that its activities and products do not harm the public, customers, employees or contractors. Procedures exist to enable two way communication and consultation about health, safety and welfare issues in order to achieve a high level of safety awareness.

Environmental matters

The Company recognises that it has a responsibility to manage the impact of its business on the environment both now and in the future. Key areas of focus are:

- energy use and emissions from warehouses, distribution centres and offices;
- fuel emissions from the transportation of products; and
- waste created in warehouses, distribution centres and offices.

NEXT remains committed to reducing its carbon footprint by reducing energy consumption throughout its operations, minimising and recycling waste, and cutting transport emissions.

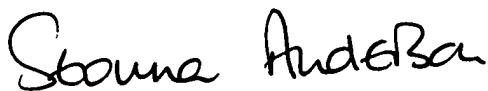
Human rights

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

Our approach is to implement the United Nations Guiding Principles on Business and Human Rights (UN Guiding Principles). We have developed training for our employees, suppliers, business partners and service providers which is being implemented in 2017.

Strategic Report (continued)

By order of the Board

A handwritten signature in black ink, appearing to read 'Seonna Anderson', written in a cursive style.

Seonna Anderson
Secretary

27 June 2017

Directors' Report

Disclosures required under the 2013 amendment to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of employee matters (including the employment, training and advancement of disabled persons) and future developments are given in the Strategic Report.

No donations were made for political purposes (2016: nil).

Dividends

No equity dividend was paid during the period (2016: £150m). The directors do not propose payment of a final dividend.

Directors

The directors who served the Company during the period were as follows:

Lord Wolfson of Aspley Guise
Jane Shields
Michael Law
Amanda James

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

Going concern

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

The Company participates in the NEXT Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiary companies. The directors, having assessed the responses of the directors of the Company's ultimate parent, NEXT plc, to their enquiries have no reason to believe that a material uncertainty exists that may cast doubt about the ability of the NEXT Group to continue as a going concern or its ability to continue with the current banking arrangements. On the basis of these enquiries, the support assured by NEXT plc, and their assessment of the Company's financial position the directors have a reasonable expectation that the Company 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.

Auditor

Following a tender process, a resolution to appoint PriceWaterhouseCoopers LLP was passed at the 2017 NEXT plc AGM. Accordingly, we do not expect to reappoint Ernst & Young LLP.

Directors' Report (continued)

Disclosure of information to the auditor

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

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

By order of the Board



Seonna Anderson
Secretary

27 June 2017

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including Financial Reporting Standard 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 Company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

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

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

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

Independent Auditor's Report

to the members of NEXT Distribution Limited

We have audited the financial statements of NEXT Distribution Limited for the period ended 28 January 2017 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related Notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 January 2017 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101, 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report

to the members of NEXT Distribution Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Andy Williams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

29 June 2017

Profit and Loss Account

for the 52 week period ended 28 January 2017

		52 weeks to 28 January 2017 £000	53 weeks to 30 January 2016 £000
	Notes		
Turnover	2	462,730	467,094
Cost of sales		(400,464)	(404,232)
Gross profit		62,266	62,862
Administrative costs		(1,811)	(1,929)
Operating profit	3	60,455	60,933
Interest payable	6	-	(3)
Profit on ordinary activities before taxation		60,455	60,930
Taxation	7	(11,656)	(12,326)
Profit on ordinary activities after taxation		48,799	48,604

All amounts relate to continuing operations.

Statement of Comprehensive Income

for the 52 week period ended 28 January 2017

There was no other comprehensive other than the profit of £48,799,000 attributable to the shareholders for the 52 week period ended 28 January 2017 (53 week period ended 30 January 2016: £48,604,000).

Balance Sheet

at 28 January 2017

	Notes	28 January 2017 £000	30 January 2016 £000
Fixed assets			
Tangible assets	9	124,744	119,710
Current assets			
Debtors	10	98,876	46,314
Cash at bank and in hand		378	331
		<u>99,254</u>	<u>46,645</u>
Creditors: amounts falling due within one year	11	<u>(50,260)</u>	<u>(39,988)</u>
Net current assets		<u>48,994</u>	<u>6,657</u>
Total assets less current liabilities		173,738	126,367
Provisions for liabilities and charges	12	<u>(7,856)</u>	<u>(7,876)</u>
Net assets		<u>165,882</u>	<u>118,491</u>
Capital and reserves			
Share capital	16	25,000	25,000
Profit and loss account		140,882	93,491
Total equity		<u>165,882</u>	<u>118,491</u>

These financial statements were approved and authorised for issue by the Board of directors on 27 June 2017.



Amanda James
Director

Statement of Changes in Equity

for the 52 week period ended 28 January 2017

	<i>Notes</i>	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 24 January 2015		25,000	193,787	218,787
Total comprehensive income for the period		-	48,604	48,604
Tax recognised directly in equity	7	-	1,100	1,100
Dividends paid: equity	8	-	(150,000)	(150,000)
At 30 January 2016		25,000	93,491	118,491
Total comprehensive income for the period		-	48,799	48,799
Tax recognised directly in equity	7	-	(1,408)	(1,408)
Dividends paid: equity	8	-	-	-
At 28 January 2017		25,000	140,882	165,882

Notes to the Financial Statements

at 28 January 2017

1. Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS101").

The financial statements have been prepared on the historical cost basis except for certain share based payment liabilities which are measured at fair value. The financial statements are for the 52 weeks to 28 January 2017 (last year 53 weeks to 30 January 2016) and the principal accounting policies adopted are set out below.

The Company's financial statements are presented in pounds Sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

The Company has taken advantage of the exemption under paragraph 8(h) of FRS101 not to include a cash flow statement.

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Turnover

Turnover represents the fair value of amounts receivable and is stated net of sales taxes. Income from rendering of services is recognised when the services have been performed.

Tangible assets

Property, plant and machinery 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.

The depreciation period generally applicable to plant and machinery ranges from two to fifteen years. Freehold buildings are depreciated over fifty years.

Impairment

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

Trade and other debtors

Trade debtors are stated at invoice value less any allowance for impairment. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Share-based payments

The fair value of employee share options granted is calculated using a Black-Scholes model. The resulting cost is charged in the profit and loss account over the vesting period of the option, and is regularly reviewed and adjusted for the expected and actual number of options vesting. The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

For cash-settled share based payments, the fair value of the liability is determined at each balance sheet date and the cost is recognised in the profit and loss account over the vesting period.

Notes to the Financial Statements

at 28 January 2017

1. Accounting policies (continued)

Taxation

Taxation, comprised of current and deferred tax, is charged or credited to the profit and loss account unless it relates to items in other comprehensive income or directly in equity. In such cases, the related tax is also recognised in other comprehensive income or directly in equity.

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

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

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

Cash at bank and in hand

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

Bank borrowings

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

Employee benefits

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

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

The trustee of the defined benefit scheme is a limited company, NEXT Pension Trustees Limited (the "Trustee"). The Board of the Trustee currently comprises of five directors who are all members of either the Original Plan or the 2013 Plan, and an independent Chairman who 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.

Full details of the scheme are available in NEXT plc annual accounts. Please refer to note 13 for further details.

Provisions

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

Leasing commitments

Rentals payable under operating leases are charged to the profit and loss on a straight line basis over the period of the lease. Premiums payable, rent free periods and capital contributions receivable on entering an operating lease are released to the profit and loss account on a straight line basis over the lease term.

Notes to the Financial Statements

at 28 January 2017

New accounting standards

Various new or revised accounting standards have been issued which are not yet effective, including IFRS 15 'Revenue from contracts with customers', IFRS 9 'Financial Instruments' and IFRS 16 'Leases'. The impact of IFRS15 and IFRS 9 is not expected to be material to Next Distribution Limited.

1. Accounting policies (continued)

IFRS 16 "Leases" will be effective for the year ending January 2020 onwards and the impact on the financial statements will be significant. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts. Therefore, the substantial majority of the Group's operating lease commitments (some £22m on an undiscounted basis, as shown in Note 14 of the financial statements) would be brought on balance sheet and amortised and depreciated separately. There will be no impact on cash flows although the presentation of the cash flow statement will change significantly. Management are currently working on the new processes and systems that will be required to comply with this accounting standard.

2. Turnover

	2017 £000	2016 £000
Rendering of services	<u>462,730</u>	<u>467,094</u>

3. Operating profit

This is stated after charging/(crediting):

	2017 £000	2016 £000
Depreciation on assets:	20,216	20,498
(Profit)/Loss on disposal of tangible assets	(370)	747
Operating lease rentals:		
Minimum lease payments	12,524	12,435
Auditor's remuneration:		
Audit services	10	10
Trade debtors:		
Impairment charge	1	11
Amounts recovered from previously impaired debtors	(4)	(4)

Notes to the Financial Statements

at 28 January 2017

4. Staff costs

	2017 £000	2016 £000
Wages and salaries	148,554	145,541
Social security costs	12,270	11,776
Other pension costs	4,778	4,881
	<u>165,602</u>	<u>162,198</u>
Share based payments expense:		
Equity settled	1,811	1,930
	<u>167,413</u>	<u>164,128</u>

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

	2017 No.	2016 No.
Distribution staff	<u>6,399</u>	<u>6,493</u>

If the number of hours worked were converted on the basis of a full working week, the equivalent average number of full-time employees would have been 5,843 (2016: 5,799).

5. Directors' emoluments

None of the directors received any remuneration from the Company for the 52 week period ended 28 January 2017 (53 weeks ended 30 January 2016: £nil). All of the directors were also directors of the ultimate parent company, NEXT plc, and their emoluments for services to the Group are disclosed in the report and accounts of that company. The directors believe that it is not practicable to apportion their remuneration between qualifying services for this company and other Group companies in which they hold office.

6. Interest payable

	2017 £000	2016 £000
Interest on obligations under finance leases	<u>-</u>	<u>3</u>

Notes to the Financial Statements

at 28 January 2017

7. Taxation

	2017 £000	2016 £000
<i>Current tax:</i>		
UK corporation tax on profits of the period	13,168	13,616
UK corporation tax in respect of prior years	140	-
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	(386)	(1,126)
Impact of deferred tax rate change	(1,559)	-
Adjustments in respect of prior years	293	(164)
Tax expense reported in the profit and loss account	<u>11,656</u>	<u>12,326</u>

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

	2017 %	2016 %
UK corporation tax rate	20.0	20.2
Non-deductible expenses	0.1	0.3
Impact of deferred tax rate change	(1.5)	-
Tax under /(over) provided in previous years	0.7	(0.3)
Effective total tax rate on profit before taxation	<u>19.3</u>	<u>20.2</u>

In addition to the amounts charged to the profit and loss account, tax movements recognised through equity were as follows:

	2017 £000	2016 £000
<i>Current tax:</i>		
Share based payments	(224)	(2,410)
<i>Deferred tax:</i>		
Share based payments	1,632	1,310
Tax credit in the statement of changes in equity	<u>1,408</u>	<u>(1,100)</u>

Deferred taxation

	2017 £000	2016 £000
Accelerated capital allowances	8,434	10,426
Share based payments	(571)	(2,544)
Other temporary differences	(7)	(6)
	<u>7,856</u>	<u>7,876</u>

Notes to the Financial Statements

at 28 January 2017

7. Taxation (continued)

The movement in the year is as follows:

	2017 £000	2016 £000
At January 2016	7,876	7,856
(Credited)/charged to the profit and loss account		
Accelerated capital allowances	(1,992)	(1,424)
Share based payments	341	114
Other temporary differences	(1)	20
Recognised directly in equity	1,632	1,310
At January 2017	<u>7,856</u>	<u>7,856</u>

8. Dividends

	2017 £000	2016 £000
Equity dividend of £0.00 (2016: £6.00) per share	-	150,000
	<u>-</u>	<u>150,000</u>

9. Tangible fixed assets

	Freehold property £000	Plant and machinery £000	Total £000
<i>Cost:</i>			
At January 2016	1,109	323,922	325,031
Additions	-	25,312	25,312
Transfers	-	69	69
Disposals	-	(6,505)	(6,505)
At January 2017	<u>1,109</u>	<u>342,798</u>	<u>343,907</u>
<i>Depreciation:</i>			
At January 2016	174	205,147	205,321
Provided during the year	22	20,194	20,216
Disposals	-	(6,374)	(6,374)
At January 2017	<u>196</u>	<u>218,967</u>	<u>219,163</u>
<i>Carrying amount:</i>			
At January 2017	<u>913</u>	<u>123,831</u>	<u>124,744</u>
At January 2016	<u>935</u>	<u>118,775</u>	<u>119,710</u>

The carrying amount of plant and machinery above includes an amount of £nil (2016: £8,000) in respect of assets held under finance leases. At 28 January 2017 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1,915,000 (2016: £12,786,000).

Notes to the Financial Statements

at 28 January 2017

10. Debtors

	2017 £000	2016 £000
Trade debtors	611	458
Less: allowance for doubtful debts	-	(3)
	<u>611</u>	<u>455</u>
Amounts owed by group undertakings	97,047	44,597
Prepayments and accrued income	1,218	1,262
	<u>98,876</u>	<u>46,314</u>

Amounts owed by Group undertakings are repayable on demand and do not bear interest.

The credit quality of trade debtors that are neither past due nor impaired is considered good as there has been no recent significant default. Expected irrecoverable amounts are provided for based on past default experience.

The other classes within trade and other debtors do not include impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset above. The Company does not hold any collateral over these balances.

Ageing of trade debtors	2017 £000	2016 £000
Not past due	608	455
0 – 30 days past due	3	3
30 – 60 days past due	-	-
60 – 90 days past due	-	-
	<u>611</u>	<u>458</u>

11. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Obligations under finance leases	-	12
Amounts owed to parent undertaking	6,383	2,322
Other taxes and social security	172	168
Corporation tax	13,084	11,206
Accruals and deferred income	30,621	26,280
	<u>50,260</u>	<u>39,988</u>

Amounts owed to the parent undertaking are repayable on demand and do not bear interest.

12. Provisions for liabilities and charges

The provision represents the deferred tax liability of £7,856,000 (2016: £7,876,000) details of which can be found at Note 7.

Notes to the Financial Statements

at 28 January 2017

13. Pension benefits

Employees of the Company are eligible in the UK for membership of the NEXT Group Pension Plan, which consists of defined benefit and defined contribution sections. The defined benefit section was closed to new members in 2000. The Group also provides unfunded retirement benefits to some plan members whose benefits would otherwise be restricted by the lifetime allowance. Pension assets are held in separate trustee administered funds, which have equal pension rights with respect to members of either sex and comply with the Employment Equality Regulations (2006).

The Group reports its pension costs, assets and liabilities in accordance with IAS 19 '*Employee benefits*' and full details are given in the consolidated financial statements of the Group. There is no consistent and reliable basis for allocating the plan assets, liabilities and cost between the participating entities since it is not possible to determine from the terms of the plan the extent to which the surplus or deficit in the plan will affect the future contributions of the Company. Accordingly, as an unlisted wholly-owned subsidiary of NEXT plc, the Company accounts for its participation in the plan as if it were a defined contribution plan.

The IAS 19 valuation of the defined benefit obligation was undertaken by an independent qualified actuary as at 28 January 2017 using the projected unit credit method. The net surplus in the plan on an IAS 19 basis at that date was £62.9m (2016: net surplus £46.0m). Further details on changes to the scheme in the year and the actuarial assumptions used can be found in the financial statements of the parent company, NEXT plc.

Members of the defined contribution section contribute 3% or 5% of pensionable earnings, the employer contribution rate is 17.5%. With effect from January 2018, the Company has also agreed to pay contributions of 31.3% pa of members' frozen pensionable salaries as at 31 October 2012 towards the future accrual of benefits for active members, an increase from 17.5% pa.

Members of the defined contribution section contribute 3% or 5% of pensionable earnings which is matched by the employing company.

Full actuarial valuation

The latest full actuarial valuation of the 2013 Plan was undertaken as at 30 September 2016 by Willis Towers Watson (who act as Actuary to the Trustees). The valuation showed a funding deficit on the Technical Provisions basis required by legislation of £70.2m at that date.

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

At the Company's year end date the 2013 Plan was estimated to be fully funded on a Technical Provisions basis with a surplus in the region of £5m.

Notes to the Financial Statements

at 28 January 2017

14. Commitments under operating leases

Future minimum rentals payable under non-cancellable operating leases where the Company is the lessee:

	2017 £000	2016 £000
Within one year	8,130	7,510
After one year but not more than five years	12,737	14,215
More than five years	868	668
	<u>21,735</u>	<u>22,393</u>

The Company has entered into operating leases in respect of vehicles, equipment and warehouses. These non-cancellable leases have remaining terms of between 1 months and 7 years.

15. Contingent liability

The Company has entered into a cross guarantee arrangement with Barclays Bank plc and HSBC Bank Plc in respect of a bank set-off arrangement with its parent undertaking NEXT plc, and certain fellow subsidiary undertakings. The guarantee is limited to the positive cash balance held on the Company's bank account.

16. Share capital

		2017 £000	Authorised 2016 £000
Ordinary shares of £1 each		<u>30,000</u>	<u>30,000</u>
		<i>Allotted, called up and fully paid</i>	
		2017 £000	2016 £000
	No.	No.	
Ordinary shares of £1 each	25,000,002	<u>25,000</u>	<u>25,000</u>

Notes to the Financial Statements

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17. Equity-settled share based payments

Employees of the Company participate in management and sharesave option schemes offered by NEXT plc in its shares. Management share options are granted annually at the prevailing market price at the time of grant and are exercisable between three and ten years following their grant. The sharesave option scheme operates on a save-as-you-earn principle, and offers options at a discount of 20% to the prevailing market rate at the time of grant, exercisable three or five years after the date of grant. A Long Term Incentive Plan (LTIP) is offered to directors who may receive conditional awards of shares dependent on a three year service condition, a total shareholder return condition and consideration of a general economic underpin test. A share matching plan (SMP) is also offered to senior executives, who may receive options over shares in exchange for the investment of part or all of their annual bonus in NEXT Plc shares. Further details of all of these schemes are provided in the Group's consolidated financial statements.

Prior to January 2014, all LTIP awards were accounted for as cash-settled share based payments. From January 2014 onwards, new LTIP grants to executive directors will be settled in shares with no cash settlement alternative. Those awards are therefore accounted for under IFRS2 as equity-settled. Legacy awards to executive directors will be treated as cash settled unless settlement is taken in shares. From January 2014, executive directors are no longer granted SMP awards.

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

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was £52.89 (2016: £74.82). Options outstanding at 28 January 2017 are exercisable at prices ranging between £10.81 and £70.80 (2016: £9.17 to £70.80), and have a weighted average remaining contractual life of 5.7 years (2016: 5.6 years), further analysed in the table below.

	2017		2016	
	No. of options outstanding	Weighted average remaining contractual life (years)	No. of options outstanding	Weighted average remaining contractual life (years)
Exercise price range				
£9.17 - £29.67	52,294	3.4	94,810	3.9
£38.25	388,329	3.7	-	-
£41.12 - £41.70	96,983	5.3	217,741	5.6
£54.10 - £59.76	158,454	7.4	281,148	3.2
£66.95 - £70.80	90,556	7.7	98,543	8.7
Outstanding at end of period	<u>786,616</u>	5.7	<u>692,242</u>	5.6

SMP options

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

The weighted average remaining contractual life of these options is 7.6 years (2016: 7.5 years). SMP options were exercised at different times in the year and the weighted average share price during this period was £52.47 (2016: £72.92).

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Equity-settled LTIP awards

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

The weighted average remaining contractual life of these options is 1.5 years (2016: 1.9 years). No equity-settled awards were exercised during the year.

18. Ultimate parent company and controlling party

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