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# next plc

## **RESULTS FOR THE HALF YEAR TO JULY 2013**

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Financial highlights are as follows:

- Sales up 2.2% at £1,677m
- Operating profit of £285m, up 7.2%
- Profit after tax of £217m, up 13.8%
- Net cash inflow of £129m before £170m of share buybacks
- Earnings per share of 142p, up 19.9%
- Interim dividend of 36p, up 16.1%

# FINANCIAL OVERVIEW

Sales for the half year ending 27 July 2013 were **2.2%** ahead of last year. This was near the mid-point of the guidance range we issued in March. The increase was driven by a combination of additional NEXT Retail selling space and increased online sales through the NEXT Directory. New selling space added 1.8% to total NEXT Brand sales.

Operating profits were at the top end of our expectations, up **7.2%**. The difference between profit and sales growth is largely explained by the differing performance of our full price business and markdown sales. NEXT Brand full price sales were up **3.9%**. We went into Sale with 18% less stock than last year and markdown sales were consequently 13% down on last year. The combined effect of better full price sales, lower unprofitable markdown sales and good cost control, meant that operating margins improved in both Retail and Directory.

NEXT's key financial objective is to deliver sustainable long term growth in earnings per share. To this end, the Company continued to use surplus cash to buy back shares and in doing so we enhanced EPS by a further 6%. Pre-tax earnings per share were up **14.0%**. A lower tax rate further enhanced post-tax EPS, which were up 19.9%.

<b>REVENUE excluding VAT</b>	<b>July 2013</b>	July 2012	
	<b>£m</b>	£m	
NEXT Retail	<b>1,000.6</b>	1,009.9	-0.9%
NEXT Directory	<b>597.6</b>	551.7	+8.3%
NEXT BRAND	<b>1,598.2</b>	1,561.6	+2.3%
Other	<b>79.0</b>	78.7	
Total	<b>1,677.2</b>	1,640.3	+2.2%

<b>PROFIT and EPS</b>	<b>July 2013</b>	July 2012*	
	<b>£m</b>	£m	
NEXT Retail	<b>124.3</b>	122.7	+1.3%
NEXT Directory	<b>156.1</b>	137.7	+13.4%
Other	<b>4.5</b>	5.4	
Operating profit	<b>284.9</b>	265.8	+7.2%
Net interest	<b>(13.1)</b>	(14.5)	
Profit before tax	<b>271.8</b>	251.3	+8.2%
<i>Pre-tax EPS</i>	<b>178p</b>	156p	+14.0%
Taxation	<b>(54.5)</b>	(60.3)	
Profit after tax	<b>217.3</b>	191.0	+13.8%
<i>EPS</i>	<b>142p</b>	119p	+19.9%
Interim dividend per share	36.0p	31.0p	+16.1%

\* July 2012 profits and EPS exclude a £4.8m exceptional pension charge

# THE PLAN IN BRIEF

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The business remains focussed on five straightforward objectives:

<b>Develop the NEXT Brand</b>	The continued development and improvement of our product ranges.
<b>Invest in profitable new space</b>	The acquisition of profitable new retail space, where new stores meet our profitability and return on capital criteria.
<b>Invest in online growth</b>	The development of our online business, the NEXT Directory, through improving our UK services and growing overseas markets.
<b>Control costs</b>	Controlling costs through innovation and improved working practices. This must be done without undermining the quality of our products and customer service.
<b>Generate and return cash</b>	Use surplus cash to buy back shares, as and when it is earnings enhancing and exceeds our target Equivalent Rate of Return of 8%.

## PRODUCT

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### LEADING BY DESIGN

We continue in our endeavour to make our ranges more responsive to new trends, ensuring that our collections are led by our design teams. We have consciously taken more fashion risks and, where we have done so, have generally been rewarded with better sales. There is still more that can be done to improve the fashion content of our ranges and our ability to respond to new trends. In particular we can improve the way we manage and buy fabric, taking more risk on key fabrics earlier in the buying cycle and in greater quantities.

### SALES VOLATILITY AND TRANSITIONAL OPPORTUNITIES

In recent years we have experienced much greater sales volatility, with consumers spending closer to the point at which they need new clothing. This explains why sales were particularly strong during July when the weather became much warmer. However, during August the warm weather worked against some of our clothing ranges. This was partly as a result of selling out of summer weight stock in July, but mainly because we did not plan enough warm weather transitional stock for the launch of our Autumn ranges after the July End of Season Sale.

Looking ahead to next year, we believe there is some opportunity to sell more transitional stock in the early weeks of the Spring Season (Jan/Feb) and Autumn Season (Aug/early Sept).

## RETAIL

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Retail sales were down 0.9% on last year. The table below sets out the differing growth in full price and markdown sales.

	<b>Growth vs Last Year</b>
Full price sales	+0.6%
Markdown sales	-13.5%
<b>Total sales</b>	<b>-0.9%</b>

New space added 2.7% to Retail sales. Retail operating margins improved by 0.2%, with profit of £124m, 1.3% higher than last year.

## RETAIL SPACE EXPANSION

We have continued to add profitable new retail selling space in and around towns and cities where we cannot adequately display our ranges. The opportunity is particularly good for our Home division. This section goes into more detail than usual about the nature of the space we are taking and the longer term financial commitments involved.

### The Rationale for Acquiring New Retail Space

The addition of new retail space sounds counter-intuitive in an environment of declining like for like sales and growth in internet sales. However we believe that investment makes sense for the following reasons:

- New space is highly profitable, making 22% net margins, before central overheads. Indeed, without new space our Retail profits would have declined throughout the credit crunch.
- Our UK online customers make good use of our retail space. 38% of orders made from home are collected from stores. 66% of Directory returns come back through our store network.
- Counter-cyclical investment in space means that we are able to secure new stores on good terms. On average, where we are moving to larger space, rent per square foot *and* rent as a percentage of sales are lower than the space being replaced.
- The difficult retail environment means there are a healthy number of good quality locations available.
- Long term risk has been managed through taking shorter leases.

The acquisition programme has one additional advantage – it serves to replace our tired older shops with newly fitted space.

### Space Acquired in the First Half

Trading space increased by 145,000 square feet in the first half of the year. The table below sets out the change in store numbers and space since January 2013.

	Store Numbers	Sq. Ft. (000's)
<b>January 2013</b>	<b>540</b>	<b>6,728</b>
New stores	+6	+113
Closures	- 5	- 37
Re-sites (4) and extensions (3)	-	+69
<b>July 2013</b>	<b>541</b>	<b>6,873</b>

### Healthy Returns on Capital and Profitability

New store profitability is forecast to be 22%. Payback on net capital invested is expected to be 19 months. Both figures are comfortably within Company investment hurdles of 15% store profitability and 24 months payback on capital. Forecasts for stores opened in the last 12 months, broken down between Fashion (i.e. clothing and accessories) and Home stores, shown in the table below, are based on sales since their dates of opening.

	<b>Sales vs target</b>	<b>Forecast profitability</b>	<b>Forecast payback</b>
Fashion	+9%	23%	18 months
Home	+6%	19%	24 months
<b>Total</b>	<b>+9%</b>	<b>22%</b>	<b>19 months</b>

## Store Portfolio Profitability

We continue to closely monitor the profitability of our store portfolio. Underperforming stores are actively managed with a view to possible closure before they become uneconomic. Our Mainline portfolio remains highly profitable, with 90% of our sales coming from stores delivering more than 15% profit contribution on sales.

<b>Store profitability</b>	<b>Percentage of turnover</b>
>20%	71%
>15%	90%
>10%	95%
>5%	98%
>0%	99.4%

## Retail Space – Pipeline

We have identified 1.4m square feet of additional space that we would like to open over the next five years. Much of that space is still under negotiation and 780,000 square feet still requires planning permission, so there is uncertainty as to how much space we will actually open.

Our current forecast is that we will open around 300,000 square feet in the current year and another 450,000 square feet in the year ending January 2015, and the same again in the following year.

800,000 square feet of the above pipeline is in the form of new large format Fashion, Home and Garden stores, which we successfully trialled in Shoreham two years ago. We are currently trading in four of these stores and have planning permission to open eleven more (though not all have room for a garden centre). There are a further 18 possible stores of this type under negotiation with landlords and planners.

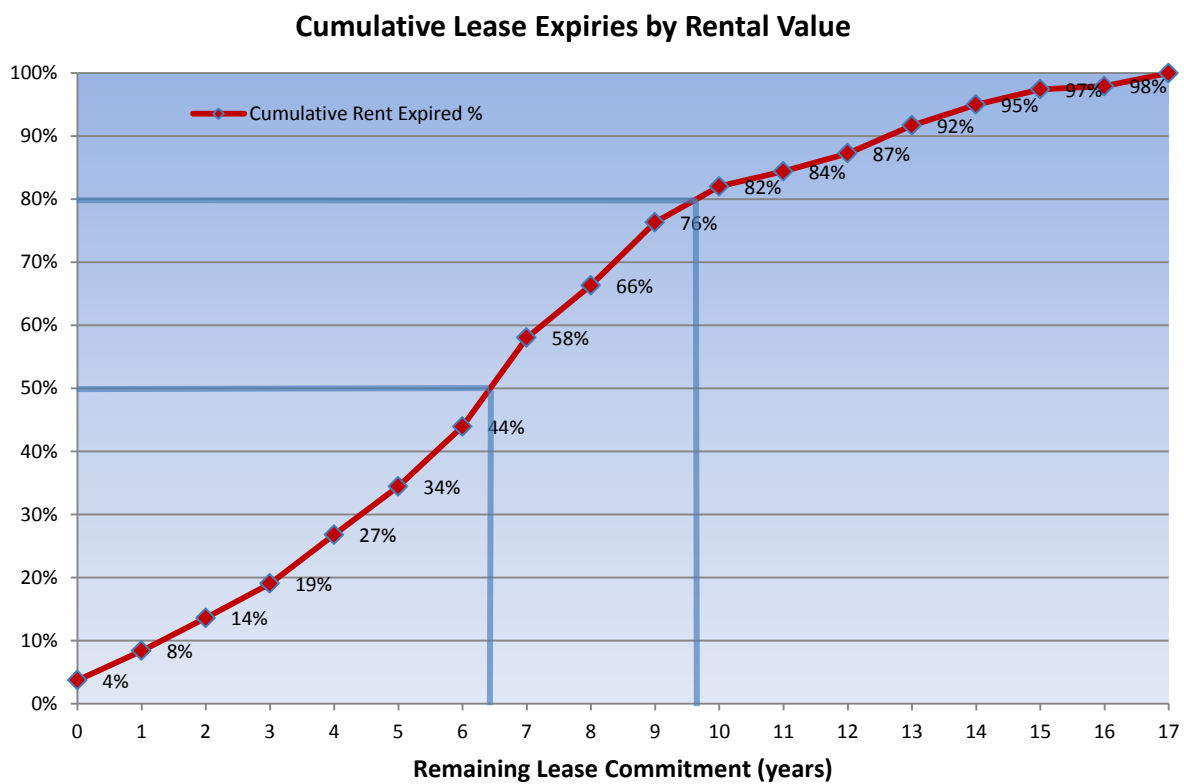
All of these new format stores require some planning permission and we have made good progress in gaining the necessary consents. There has been a sea change in the attitude of many local councils towards retail development. There seems to be a much better understanding of the economic advantages and employment it can bring to an area.

The key to getting permission has been to engage with planners, councillors and the local community. Vitality, none of these new stores replace town centre shops. Often planning consents will include a legal obligation to remain open in nearby town centres. We are happy to make these commitments, as our experience to date is that these new format stores have had very little impact on our town centre trade. This is because in many cases these stores are expanding or replacing existing out of town space.

## Long Term Lease Liabilities and Lease Expiry Profile

The environment for taking new leases has changed significantly over the last five years. It is now unusual for us to take a lease with more than 10 years' commitment. The exceptions tend to be larger new-build stores, where landlords need the long term commitment to justify their investment in new buildings.

The graph below shows the percentage of our rental liability that will have expired (or reached an optional break clause) after a given number of years from today. As can be seen, 50% of our rental liabilities will have expired in less than 7 years and 80% in less than 10 years. So even in the event we do see a significant shift away from retail to online, our portfolio is relatively flexible and should be able to cope with the change.



## RETAIL PROFIT ANALYSIS

Operating margin in the first half improved slightly on last year by 0.2% to 12.4%. The table below details the margin movement by the major heads of costs.

<b>Net operating margin last year</b>		<b>12.2%</b>
<b>Bought-in gross margin</b>	Bought-in margin remained broadly flat on last year.	<b>-0.1%</b>
<b>Lower markdown</b>	Retail stock for sale was down 19%, but markdown sales were only down 13.5%. Margin improved as a result of (1) an improvement in the clearance rate of our Sale stock and (2) a higher participation of full price sales for the total season.	<b>+1.0%</b>
<b>Reduction in freight and fabric</b>	Margin improved due to lower freight costs and improved fabric utilisation.	<b>+0.5%</b>
<b>Reduction in store payroll</b>	In-store efficiency initiatives more than covered the cost increase from the annual pay review.	<b>+0.1%</b>
<b>Increase in store occupancy</b>	Rents and rates increased as a percentage of sales mainly as a result of negative like for like sales. Rental inflation was minimal. Inflation in business rates, which are linked to RPI, was 2.7%.	<b>-0.8%</b>
<b>Increase in warehouse and distribution costs</b>	Warehouse and distribution costs increased as a percentage of sales, mainly as a result of the annual pay award.	<b>-0.2%</b>
<b>Central overheads</b>	Central overheads increased as a percentage of sales mainly as a result of higher staff incentives and the annual pay award.	<b>-0.3%</b>
<b>Net operating margin this year</b>		<b>12.4%</b>

## DIRECTORY

### SALES ANALYSIS

The table below sets out the contribution to the growth of Directory sales from the different parts of the business.

	<b>Contribution to sales growth</b>
UK full price sales	5.3%
UK Clearance Tab	0.9%
International online	2.9%
UK markdown sales	-0.8%
<b>Total sales growth</b>	<b>8.3%</b>

The core UK full price business contributed 5.3% to growth and our Clearance Tab added a further 0.9%. The Clearance Tab is the online equivalent of our clearance stores. It sells the previous season's stock which has already been written down to one third of cost.

Markdown sales were 9% down on last year, and reduced sales growth by 0.8%.

## NEW CUSTOMERS

Directory active customers increased year on year by 12.1% to 3.6 million. The growth of credit and cash customers is shown in the table below. Cash customers are split into UK and overseas.

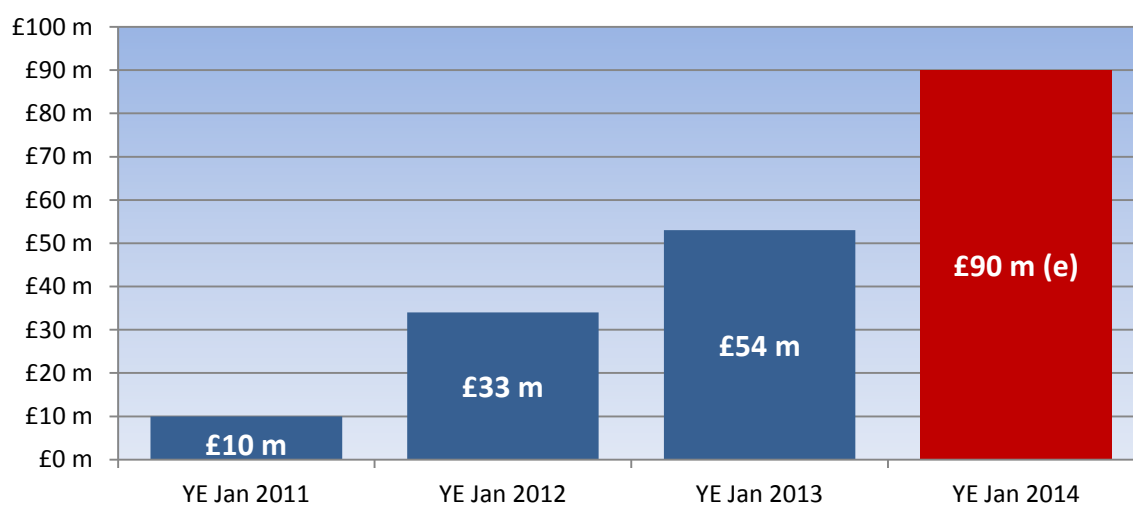
Average customers ('000s)	July 2013	July 2012	Change	Contribution to increase in customers
Total UK credit customers	2,778	2,647	+131	+4.0%
UK cash customers	620	449		
Overseas cash customers	223	133		
Total cash customers	843	582	+261	+8.1%
<b>Total active customers</b>	<b>3,621</b>	<b>3,229</b>	<b>+392</b>	<b>12.1%</b>

## INTERNATIONAL ONLINE

International sales have taken a step forward in the last six months and contributed 2.9% to the growth of Directory.

We have upwardly revised our estimate for full year international online sales from £75m to £90m. Much of this improvement has been driven by our ability to reduce operating costs which have in turn been passed on to customers by way of price reductions. In the territories where we have reduced prices we have increased both sales and profits. Net profit on international sales has been maintained at around 20% of sales.

**International Online Sales History and Forecast**





## DIRECTORY PROFIT ANALYSIS

Operating margin increased by 1.1% to 26.1%. The table below details the margin movement by the major heads of costs.

<b>Net operating margin last year</b>		<b>25.0%</b>
<b>Bought-in gross margin</b>	Bought-in gross margin remained broadly in line with last year.	<b>-0.1%</b>
<b>Lower markdown</b>	Directory stock for sale was down 17%, but markdown sales were only down 9%. Margin improved as a result of (1) an improvement in the clearance rate of Sale stock and (2) a higher participation of full price sales for the total season.	<b>+2.0%</b>
<b>Reduction in freight &amp; fabric</b>	Margin increased due to lower freight costs and improved fabric utilisation.	<b>+0.3%</b>
<b>Decrease in catalogue production costs</b>	More customers elected to trade using the internet only and without a catalogue, this reduced the costs of producing the catalogue as a percentage of sales.	<b>+0.4%</b>
<b>Increase in marketing costs</b>	This increase in costs was mainly driven by increased spending on marketing overseas. There was also a small increase in UK marketing spend.	<b>-0.4%</b>
<b>Reduction in bad debt</b>	Lower bad debt costs increased margin by 0.3%.	<b>+0.3%</b>
<b>Reduction in service charge</b>	Service charge revenue increased, but at a lower rate than total sales. This is due to the increasing participation of cash sales, which are paid for at the point of ordering.	<b>-0.2%</b>
<b>Increase in warehouse and distribution costs</b>	International distribution costs have increased, reducing margin by -0.5%. Costs associated with service enhancements reduced margin by -0.4%. The annual pay award reduced margin by a further -0.2%.	<b>-1.1%</b>
<b>Central overheads</b>	Central overheads reduced margin by -0.1% mainly due to increased staff incentives.	<b>-0.1%</b>
<b>Net operating margin this year</b>		<b>26.1%</b>

## INTERNATIONAL RETAIL AND FRANCHISE

### Franchise

Our international franchise partners operate 168 NEXT stores in 32 countries. Franchise revenue is the product sold at cost to our partners, plus either a wholesale mark-up or royalty on sale. Our operating profit margin was unchanged on last year.

## Directly Owned Stores

We now have 17 directly owned stores in 6 countries. The reduction in turnover came as a result of shutting six loss making stores. These closures mean that we now expect our owned overseas retail business to make a small profit on an on-going basis.

<b>£m</b>	<b>July 2013</b>	July 2012
Franchise revenue	<b>34.0</b>	30.0
Owned store sales	<b>6.4</b>	7.9
Total revenue	<b>40.4</b>	37.9
Operating profit	<b>5.1</b>	3.4
Operating margin	<b>12.6%</b>	9.1%

We expect that International Retail and Franchise will contribute £11m profit for the full year.

## NEXT SOURCING

NEXT Sourcing has an extensive international network of offices and suppliers, through which it procures over 40% of the product bought by NEXT. It also has its own manufacturing facilities in Sri Lanka. We expect that NEXT Sourcing profits will be maintained at around £31m for the full year.

<b>£m</b>	<b>July 2013</b>	July 2012
External sales	<b>5.3</b>	3.0
Internal sales	<b>257.7</b>	240.7
Total sales	<b>263.0</b>	243.7
Operating profit	<b>13.6</b>	11.8
Operating margin	<b>5.2%</b>	4.8%

## LIPSY

Lipsy delivered another satisfactory profit performance. The 52 retail outlets had a difficult season, but this was outweighed by increased wholesale and internet sales. Each of these three channels now generate similar turnover, with the internet likely to be the strongest in the second half. First half profits were £1.6m and we anticipate around £5m for the year, before profit share and amortisation.

## INTEREST AND TAXATION

The interest charge was £13m, marginally down on last year as a result of lower average net debt during the period. We expect the full year interest charge will be close to last year's £29m.

We anticipate our full year tax rate will reduce to 20%, from 23.9% last year. This is due to the 1% reduction in UK corporation tax rates and 2.9% from release of prior year provisions following agreement of several outstanding issues with HMRC. Looking ahead, the further 2% reduction in UK corporation tax rates, effective from April 2014, is likely to result in a tax rate of 21% for the year to January 2015.

## BALANCE SHEET AND CASH FLOW

Capital expenditure was £53m and we have increased our estimate for the year to £120m, with increased expenditure on new large store openings. Stock was down year on year, with less stock going into the End of Season Sale and less residual stock remaining. Directory customer account balances rose £35m compared to

last year, up 6% to £588m, broadly in line with Directory credit sales. We again increased the share option cover in our Employee Share Ownership Trust, at a cash cost of £41m.

Cash flow generated before share buybacks was again strong. Net debt after buybacks increased by £41m in the period to £533m and will peak around £700m in the second half. Our central forecast for net debt at January 2014 is £563m.

## DEBT MANAGEMENT

On 30 September our 2013 bond matures and the residual £85m will be repaid from existing resources. This will leave two listed bonds outstanding; £213m maturing in 2016 and £325m in 2021. We also have a medium term £300m bank facility committed to December 2016. Subject to market conditions, it is our intention to issue a new long term bond this year, which will further extend the maturity profile of our debt.

## SHARE BUYBACKS

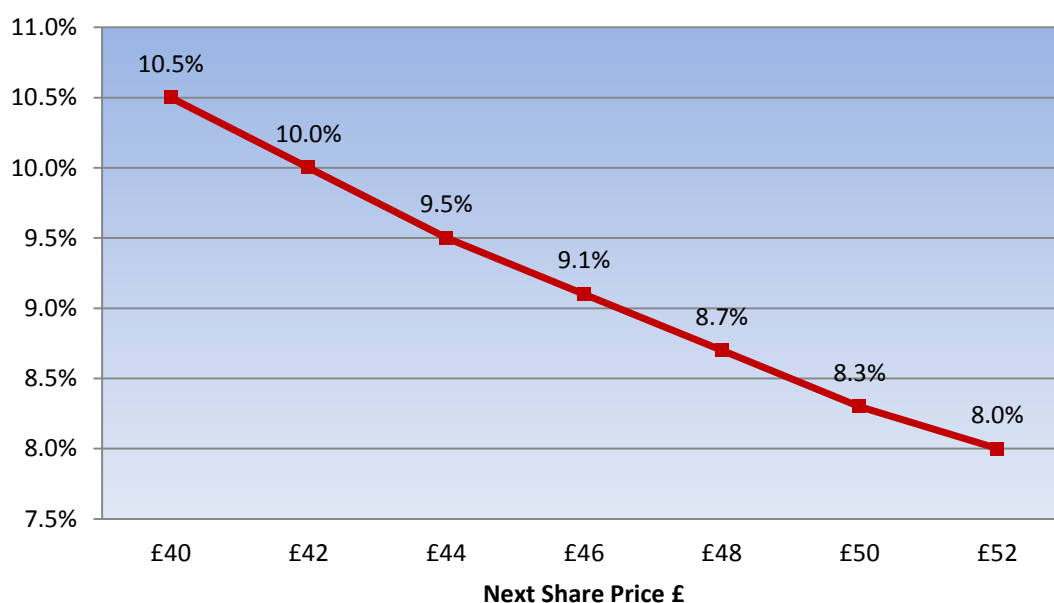
During the period we purchased 3.7 million shares at a cost of £170m, representing 2.3% of shares in issue at the start of the year. During August a further 0.2 million shares were purchased at a cost of £8m, the remainder of the £48m close period programme expired unfulfilled.

We anticipate returning between £250m and £350m to shareholders through share buybacks this year, although quantities and timing will, as always, be subject to market conditions and the prevailing share price.

In our last report, we explained how we determine the maximum price at which we are prepared to buy back shares. We introduced the concept of Equivalent Rate of Return (ERR). The ERR is the return that an alternative investment would have to make if it were to contribute as much as a buyback to growing EPS. We are reluctant to buy back shares at less than 8% ERR.

The graph below gives the ERR at different share prices, based on our rolling annual profit (the profit made between July 2012 and July 2013). Profits have moved forward in the half year, so the share price which yields an 8% ERR has also moved, from £50 per share to around £52.

Equivalent Rate of Return vs Share Price



## DIVIDEND

The interim dividend is being increased by 5p to 36p, up 16.1%. This will be paid on 2 January 2014 to shareholders on the register at 22 November 2013. The shares will trade ex-dividend from 20 November. We intend raising the total of dividends payable for the year by a similar percentage to the growth in earnings per share. This includes the benefit of the lower tax rate we now expect for the full year.

## ECONOMIC OUTLOOK

As the year has progressed the consumer environment has become marginally more benign. However, the picture is not as straightforward as it might first appear. There are four factors that are all likely to impact on consumer spending over the next six months. In summary these are:

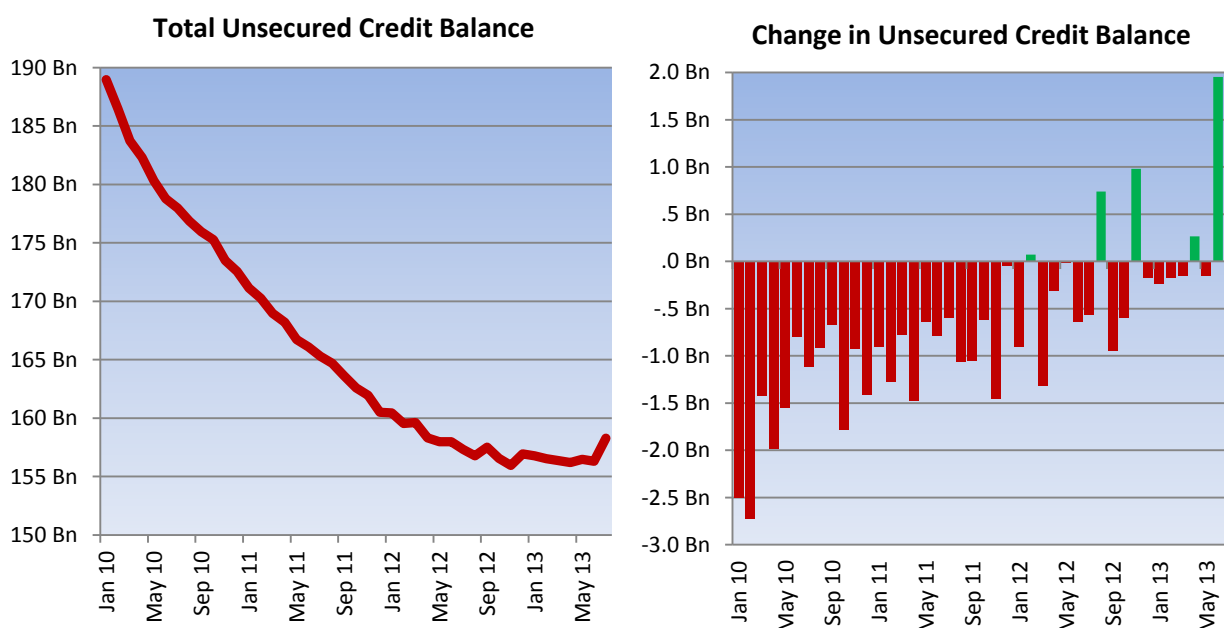
- **Employment** remains strong.
- Over the last five years consumers have steadily reduced their **unsecured borrowings**. This drag on spending is now coming to an end. For the consumer, at least, the credit squeeze appears to be over.
- The **housing market** is picking up. This is good for our Home business but, worryingly, might cause house price inflation.
- **Real earnings** continue to decline and this will rule out a strong recovery in the consumer economy.

### The Consumer Credit Squeeze May Be Over...

Since the beginning of the credit crunch, consumers have dramatically reduced their unsecured borrowings (borrowings on credit cards, hire purchase agreements, store cards etc.). These debts had reached unsustainably high levels and people have used income to pay down debts rather than spend it. The process has not been entirely voluntary and much of the reduction has been as a result of credit providers reducing their lending.

Whatever the reason, for the last five years, this debt reduction has sucked money out of the consumer economy. This process, and its consequent drag on the economy, now appears to have come to an end.

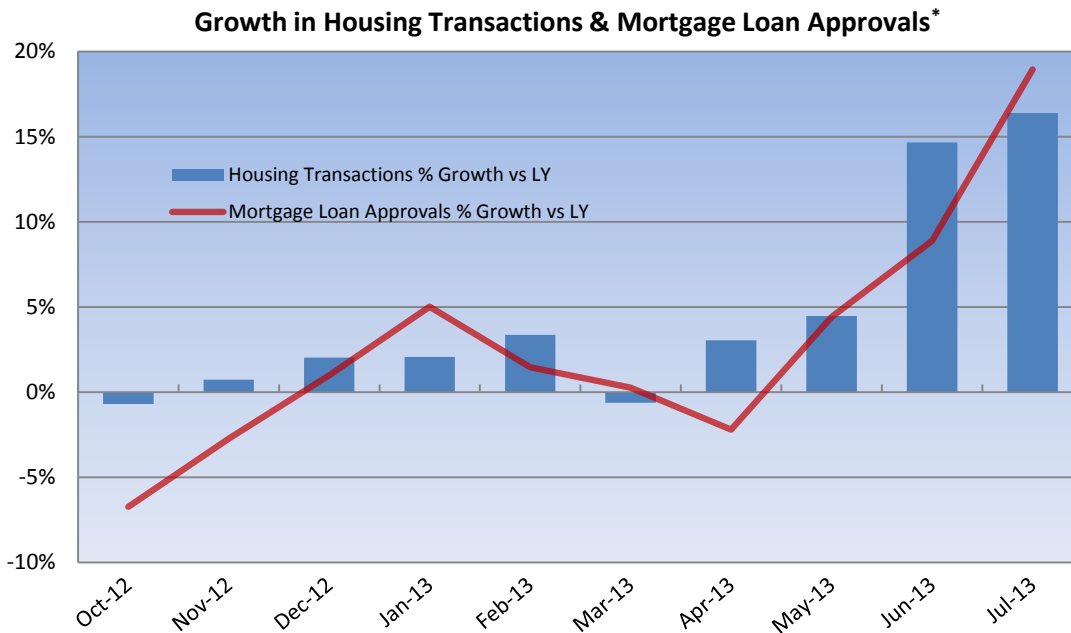
The two graphs below tell a clear picture. The left-hand graph shows how the steady fall in unsecured credit since February 2010 has levelled off. The right-hand graph shows the monthly reduction in unsecured credit balances since 2010, the positive green bars in recent months suggest credit is now flowing back into the economy.



Source: Bank of England, August 2013

## The Housing Market Is Picking Up

Easing in the unsecured credit market has been mirrored in the mortgage market. Mortgage approvals and housing transactions are both on the increase. This more benign housing market has been reflected in the performance of our Home division over the last six months.



Source: HM Treasury Databank, August 2013

\* Figures are three month rolling averages

Although the housing market revival is likely to be beneficial to the economy in the short run, there are two longer term concerns:

- The loosening of the mortgage market alongside Government housing market stimulus measures look likely to result in an unhelpful house price bubble. The result will be a significant drag on the economy if and when interest rates begin to move up.
- In the long run house price inflation, without house building, is as dangerous as any other type of inflation and ultimately represents a transfer of wealth to property owners from those who do not own their own home.

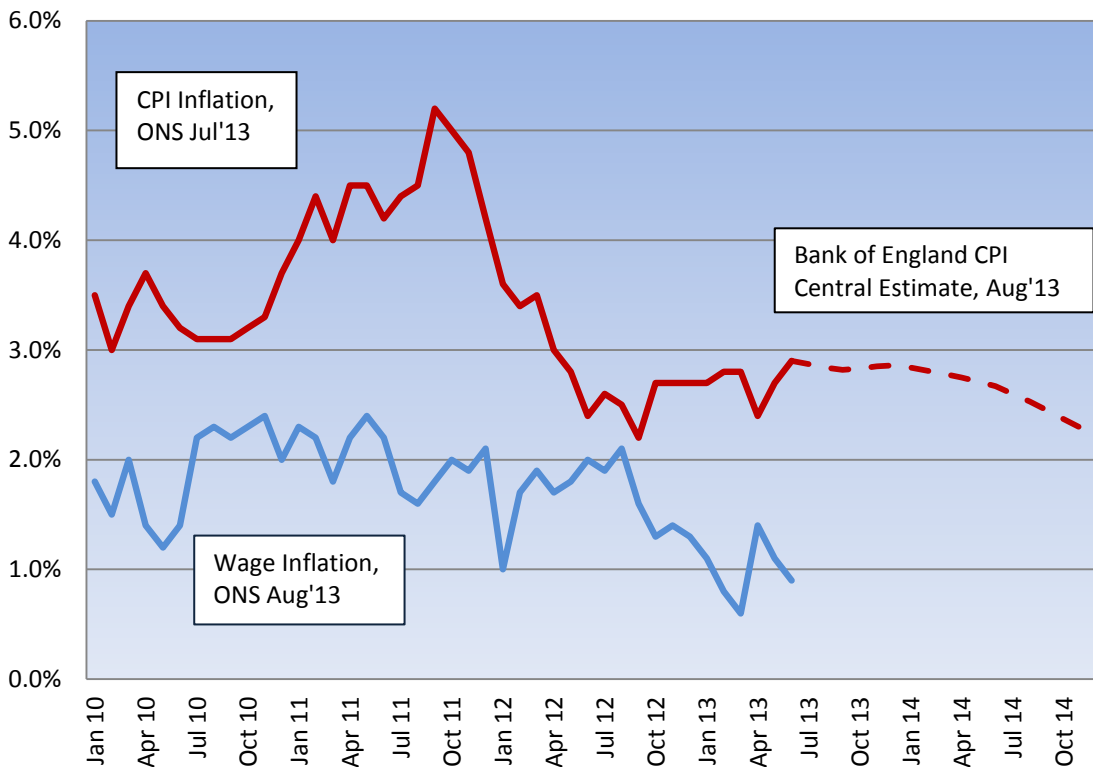
For house price rises to translate into meaningful underlying growth this increase in activity must be converted into house building rather than price rises.

## Decline in Real Earnings - Underlying Problem Still Present

However, recent good economic news requires a health warning. The end of the squeeze on consumer credit and the revival in the housing market are unlikely, on their own, to generate a significant or long term recovery in retail sales. This is because real earnings are still declining and look set to remain in negative territory for at least another year.

The graph below demonstrates the gap between the growth in earnings and inflation. If anything, the gap has widened in recent months.

**Wage Inflation and General Inflation**



### Economic Summary

The easing in the credit market has already resulted in some improvement in the retail economy. It is also possible that loosening credit markets will be the first step on the road to economic recovery and a return to real earnings growth. However, for the moment, the limited consumer recovery has been entirely credit led. We believe that talk of a full-blown recovery is premature. We expect the consumer environment to remain subdued until such time as real earnings begin to grow and that looks like it will take at least a year.

## OUTLOOK FOR SALES AND PROFIT

### OUTLOOK FOR SALES

There is nothing we can see in the wider economy or our recent trading that would lead us to alter our sales budgets for the Autumn Winter Season. We maintain Brand sales guidance for the full year, which is +1.5% to +3.5%.

## OUTLOOK FOR PROFIT

The following table sets out our guidance for sales, profits and earnings per share for the full year.

<b>Full Year Estimates</b>	<b>Lower end of guidance</b>	<b>Upper end of guidance</b>
Brand sales growth (%)	+1.5%	+3.5%
Group profit before tax (£m)	£635m	£675m
Profit before tax growth (%)	+2.2%	+8.6%
Share buyback estimate (£m)	£300m	£300m
Underlying basic pre-tax EPS growth (%)	+7%	+14%
Profit after tax growth (%)	+7.4%	+14.2%
Underlying basic post-tax EPS growth (%)	+12%	+19%

## INTERIM MANAGEMENT STATEMENT

Our next statement will cover the thirteen weeks to 26 October and is scheduled for Wednesday 30 October.

### IN SUMMARY

The Group has made good progress in the first half, delivering profits at the upper end of our expectations. Looking ahead the economy looks set to improve moderately, albeit at a slow pace and with the risk that credit easing may not translate into growth in real earnings.

We remain confident that we can deliver growth in sales, profits and earnings per share for the full year.

**Lord Wolfson of Aspley Guise**

**Chief Executive**

**12 September 2013**

## UNAUDITED CONSOLIDATED INCOME STATEMENT

	Six months to July 2013	Six months to July 2012		
	Underlying and total £m	Underlying £m	Exceptional items (Note 4) £m	Total £m
<b>Revenue</b>	<b>1,677.2</b>	1,640.3	-	1,640.3
Cost of sales	<b>(1,151.1)</b>	(1,154.1)	-	(1,154.1)
<b>Gross profit</b>	<b>526.1</b>	486.2	-	486.2
Distribution costs	<b>(137.7)</b>	(126.2)	-	(126.2)
Administrative expenses	<b>(101.8)</b>	(95.5)	-	(95.5)
Other gains/(losses)	<b>(2.8)</b>	0.9	(6.3)	(5.4)
<b>Trading profit</b>	<b>283.8</b>	265.4	(6.3)	259.1
Share of results of associates	<b>1.1</b>	0.4	-	0.4
<b>Operating profit</b>	<b>284.9</b>	265.8	(6.3)	259.5
Finance income	<b>0.3</b>	0.3	-	0.3
Finance costs	<b>(13.4)</b>	(14.8)	-	(14.8)
<b>Profit before taxation</b>	<b>271.8</b>	251.3	(6.3)	245.0
Taxation	<b>(54.5)</b>	(60.3)	1.5	(58.8)
<b>Profit for the period attributable to equity holders of the parent company</b>	<b>217.3</b>	191.0	(4.8)	186.2

	Six months to July 2013	Six months to July 2012	
	Underlying and total	Underlying	Total
<b>Earnings per share (Note 5)</b>			
Basic	<b>142.1p</b>	118.5p	115.6p
Diluted	<b>138.2p</b>	115.7p	112.8p
<b>Interim dividend per share</b>	<b>36.0p</b>		31.0p



## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months to July 2013	Six months to July 2012
	£m	£m
<b>Profit for the period</b>	<b>217.3</b>	186.2
<i>Other comprehensive income and expenses:</i>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial gains on defined benefit pension scheme	1.4	0.1
Tax relating to items which will not be reclassified	<b>(0.3)</b>	-
	<b>1.1</b>	0.1
<i>Sub-total items that will not be reclassified</i>		
<b>Items that may be reclassified to profit or loss</b>		
Exchange differences on translation of foreign operations	<b>(0.7)</b>	(0.8)
Gains/(losses) on cash flow hedges	<b>16.9</b>	(1.6)
Transferred to income statement on cash flow hedges	<b>(9.8)</b>	(2.8)
Transferred to the carrying amount of hedged items on cash flow hedges	<b>(14.4)</b>	(3.6)
Tax relating to items that may be reclassified	<b>1.7</b>	1.0
	<b>(6.3)</b>	(7.8)
<i>Sub-total items that may be reclassified</i>		
Other comprehensive expense for the period	<b>(5.2)</b>	(7.7)
<b>Total comprehensive income for the period attributable to equity holders of the parent company</b>	<b>212.1</b>	178.5

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months to July 2013	Six months to July 2012
	£m	£m
Opening total equity	<b>285.6</b>	222.7
Total comprehensive income for the period	<b>212.1</b>	178.5
Shares issued	-	0.1
Share buybacks and commitments	<b>(176.1)</b>	(125.6)
ESOT share purchases and commitments	<b>(48.7)</b>	(64.3)
Shares issued by ESOT	<b>24.5</b>	31.3
Share option charge	<b>7.7</b>	9.1
Cash settled options	<b>(2.4)</b>	-
Tax recognised directly in equity	<b>6.1</b>	3.3
Equity dividends	<b>(111.1)</b>	(99.7)
	<b>197.7</b>	155.4
<b>Closing total equity</b>	<b>197.7</b>	155.4

## UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	July 2013 £m	July 2012 £m	January 2013 £m
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant & equipment		529.5	557.2	537.3
Intangible assets		44.6	45.1	44.8
Associates and other investments		6.8	7.2	7.2
Defined benefit pension surplus		67.9	40.8	65.6
Other financial assets	7	31.1	61.5	30.9
Deferred tax assets		1.6	-	-
		<u>681.5</u>	<u>711.8</u>	<u>685.8</u>
<b>Current assets</b>				
Inventories		372.0	387.7	331.8
Customer and other receivables		716.5	674.4	718.1
Other financial assets	7	19.2	6.0	21.6
Cash and short term deposits		94.1	108.3	136.3
		<u>1,201.8</u>	<u>1,176.4</u>	<u>1,207.8</u>
<b>Total assets</b>		<u>1,883.3</u>	<u>1,888.2</u>	<u>1,893.6</u>
<b>Current liabilities</b>				
Bank overdrafts		(4.0)	(3.8)	(5.4)
Corporate bonds		(86.1)	-	(87.6)
Trade payables and other liabilities		(563.3)	(541.9)	(537.2)
Dividends payable		(111.5)	(99.7)	-
Other financial liabilities	7	(60.8)	(98.3)	(87.5)
Current tax liabilities		(76.2)	(89.6)	(98.3)
		<u>(901.9)</u>	<u>(833.3)</u>	<u>(816.0)</u>
<b>Non-current liabilities</b>				
Corporate bonds		(560.8)	(657.6)	(566.8)
Provisions		(10.3)	(11.5)	(11.2)
Deferred tax liabilities		-	(11.0)	(4.0)
Other financial liabilities	7	-	(8.9)	-
Other liabilities	8	(212.6)	(210.5)	(210.0)
		<u>(783.7)</u>	<u>(899.5)</u>	<u>(792.0)</u>
<b>Total liabilities</b>		<u>(1,685.6)</u>	<u>(1,732.8)</u>	<u>(1,608.0)</u>
<b>NET ASSETS</b>		<u>197.7</u>	<u>155.4</u>	<u>285.6</u>
<b>EQUITY</b>				
Share capital		15.7	16.5	16.1
Share premium account		0.9	0.9	0.9
Capital redemption reserve		14.2	13.4	13.8
ESOT reserve		(220.5)	(157.3)	(215.6)
Fair value reserve		1.0	3.4	8.3
Foreign currency translation reserve		1.3	1.3	2.0
Other reserves		(1,443.8)	(1,443.8)	(1,443.8)
Retained earnings		1,829.0	1,721.0	1,904.0
		<u>197.8</u>	<u>155.4</u>	<u>285.7</u>
Non-controlling interest		(0.1)	-	(0.1)
<b>TOTAL EQUITY</b>		<u>197.7</u>	<u>155.4</u>	<u>285.6</u>

## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Six months to July 2013 £m	Six months to July 2012 £m
<i>Cash flows from operating activities</i>		
Operating profit	284.9	259.5
Depreciation and amortisation	59.0	58.1
Impairment of property, plant & equipment	0.2	0.3
Loss on disposal of property, plant & equipment	1.6	0.2
Share option charge less amounts settled in cash	5.3	9.1
Dividends from associates less share of profits	0.4	(0.1)
Exchange movement	1.8	(1.2)
Increase in inventories	(40.2)	(15.8)
Decrease in customer and other receivables	1.0	23.2
Increase/(decrease) in trade and other payables	6.1	(7.6)
Pension contributions less income statement charge	(0.9)	(5.6)
	319.2	320.1
Cash generated from operations	319.2	320.1
Corporation taxes paid	(74.8)	(72.1)
	244.4	248.0
<b>Net cash from operating activities</b>	<b>244.4</b>	<b>248.0</b>
<i>Cash flows from investing activities</i>		
Additions to property, plant & equipment	(52.9)	(37.9)
Increase/(decrease) in capital accruals	3.0	(8.4)
	(49.9)	(46.3)
Payments to acquire property, plant & equipment	(49.9)	(46.3)
Net proceeds from disposal of subsidiary	-	1.5
Proceeds from sale of property, plant & equipment	0.2	4.1
Payment of deferred consideration	(0.1)	-
	(49.8)	(40.7)
<b>Net cash from investing activities</b>	<b>(49.8)</b>	<b>(40.7)</b>
<i>Cash flows from financing activities</i>		
Repurchase of own shares	(170.1)	(112.4)
Purchase of shares by ESOT	(91.2)	(68.1)
Proceeds from disposal of shares by ESOT	28.0	31.3
Interest paid	(2.7)	(4.1)
Interest received	0.3	1.8
Payment of finance lease liabilities	(0.1)	-
	(235.8)	(151.5)
<b>Net cash from financing activities</b>	<b>(235.8)</b>	<b>(151.5)</b>
Net (decrease)/increase in cash and cash equivalents	(41.2)	55.8
Opening cash and cash equivalents	130.9	48.8
Effect of exchange rate fluctuations on cash held	0.4	(0.1)
	90.1	104.5
<b>Closing cash and cash equivalents (Note 9)</b>	<b>90.1</b>	<b>104.5</b>

# NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. Basis of preparation

The Group's interim results for the six months ended 27 July 2013 were approved by the Board of Directors on 12 September 2013, and have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Other than as described below, the accounting policies adopted in the preparation of the interim financial statements are the same as those set out in the Group's annual financial statements for the year ended 26 January 2013. 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.

The interim financial statements have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on 'Review of Interim Financial Information' and do not include all of the information required for full annual financial statements.

The financial information contained in this report does not constitute statutory accounts of the Company within the meaning of Section 434(3) of the Companies Act 2006. Statutory accounts for the year to January 2013 have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or (3) of the Companies Act 2006.

### *Changes to accounting standards*

An amendment to IAS 19 *Employee Benefits* was published in June 2011 and became effective during the current year. This affects the accounting for defined benefit pension schemes and has been applied this year.

If applied retrospectively, the effect of the amendment on the first half of last year would have been to increase pension costs in the income statement by £1.2 million (full year: £2.6 million) and to increase actuarial gains in the statement of comprehensive income by an equivalent amount. There is no impact on the balance sheet. As the impact is not material, prior year figures have not been restated and remain as reported last year.

### *Going concern*

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

## 2. Risks & uncertainties

The Board has considered the principal risks and uncertainties for the remaining six months of the financial year and determined that the risks presented in the 2013 Annual Report, described as follows, also remain relevant to the rest of the financial year: Business strategy development & implementation; Liquidity & credit risk; Management team; Product design & selection; Key suppliers & supply chain management; Retail store network; Directory customer base; Warehousing & distribution; IT systems & business continuity; Call centre capacity & service levels; Treasury & financial risk management. These are detailed on pages 17 to 19 of the 2013 Annual Report, a copy of which is available on the Company's website at [www.nextplc.co.uk](http://www.nextplc.co.uk).

The Chief Executive's Review in this Interim Management Report comments on the economic outlook and its potential impact on consumer spending for the remainder of the year.

### 3. Segmental analysis

The Group's operating segments under IFRS 8 have been determined based on the management accounts reviewed by the Board. The performance of operating segments is assessed based on profits before interest and tax, excluding equity settled share option charges recognised under IFRS 2 *Share-Based Payment* and unrealised foreign exchange gains or losses on derivatives which do not qualify for hedge accounting. The activities, products and services of the principal operating segments are detailed on page 3 of the 2013 Annual Report. The Property Management segment holds properties and property leases which are sub-let to other segments and external parties.

Six months to July	External revenue		Internal revenue		Total revenue	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
NEXT Retail	1,000.6	1,009.9	4.3	2.8	1,004.9	1,012.7
NEXT Directory	597.6	551.7	2.2	1.6	599.8	553.3
NEXT International Retail	40.4	37.9	-	-	40.4	37.9
NEXT Sourcing	5.3	3.0	257.7	240.7	263.0	243.7
	<b>1,643.9</b>	1,602.5	<b>264.2</b>	245.1	<b>1,908.1</b>	1,847.6
Lipsy	27.3	26.9	0.1	0.2	27.4	27.1
Property Management	2.3	2.7	95.8	94.6	98.1	97.3
Total segment revenues	<b>1,673.5</b>	1,632.1	<b>360.1</b>	339.9	<b>2,033.6</b>	1,972.0
Third party distribution	3.7	8.2	-	-	3.7	8.2
Eliminations	-	-	(360.1)	(339.9)	(360.1)	(339.9)
<b>Total</b>	<b>1,677.2</b>	1,640.3	-	-	<b>1,677.2</b>	1,640.3

Segment profit	Six months to July 2013		Six months to July 2012		
	Underlying and total £m		Underlying £m	Exceptional items £m	Total £m
NEXT Retail	124.3		122.7	-	122.7
NEXT Directory	156.1		137.7	-	137.7
NEXT International Retail	5.1		3.4	-	3.4
NEXT Sourcing	13.6		11.8	-	11.8
	<b>299.1</b>		275.6	-	275.6
Lipsy	0.8		0.5	-	0.5
Property Management	1.1		3.6	-	3.6
<b>Total segment profit</b>	<b>301.0</b>		279.7	-	279.7
Central costs and other	(6.7)		(6.1)	(6.3)	(12.4)
Share option charge	(7.7)		(9.1)	-	(9.1)
Unrealised foreign exchange	(2.8)		0.9	-	0.9
<b>Trading profit</b>	<b>283.8</b>		265.4	(6.3)	259.1
Share of results of associates	1.1		0.4	-	0.4
Finance income	0.3		0.3	-	0.3
Finance costs	(13.4)		(14.8)	-	(14.8)
<b>Profit before tax</b>	<b>271.8</b>		251.3	(6.3)	245.0

## 4. Exceptional items

	<b>Six months to July 2013 £m</b>	Six months to July 2012 £m
Pension charge (see below)	-	(6.3)
Associated tax credit	-	1.5
	<u>-</u>	<u>(4.8)</u>

In 2012, pensions in payment were subject to a buy-in arrangement. This was similar to, but significantly smaller than, the buy-in transaction which was completed in 2010. The resulting accounting charge of £6.3m was presented in the income statement as an exceptional item.

There were no exceptional items this year.

## 5. Earnings per share

	<b>Six months to July 2013</b>	Six months to July 2012
Basic earnings per share	<b>142.1p</b>	115.6p
Underlying basic earnings per share	<b>142.1p</b>	118.5p
Diluted earnings per share	<b>138.2p</b>	112.8p
Underlying diluted earnings per share	<b>138.2p</b>	115.7p
Fully diluted earnings per share	<b>134.6p</b>	109.0p
Underlying fully diluted earnings per share	<b>134.6p</b>	111.8p

Basic earnings per share is based on the profit for the period attributable to the equity holders of the parent company, and the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOT during the period.

Underlying earnings per share is based on post-tax profits before the exceptional items described in Note 4.

Diluted earnings per share is based on 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.

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 used for the purposes of the Share Matching Plan.

The table below shows the key variables used in the earnings per share calculations:

	<b>Six months to July 2013 £m</b>	Six months to July 2012 £m
Profit after tax attributable to equity holders of the parent company	<b>217.3</b>	186.2
Exceptional items (Note 4)	-	4.8
<b>Total underlying profit (for underlying EPS)</b>	<b>217.3</b>	191.0
<b>Weighted average number of shares (millions):</b>		
Weighted average shares in issue	<b>159.8</b>	166.9
Weighted average shares held by ESOT	<b>(6.9)</b>	(5.7)
<b>Weighted average shares for basic EPS</b>	<b>152.9</b>	161.2
Weighted average dilutive potential shares	<b>4.4</b>	3.8
<b>Weighted average shares for diluted EPS</b>	<b>157.3</b>	165.0
Weighted average shares for basic EPS	<b>152.9</b>	161.2
Weighted average total share options outstanding	<b>8.5</b>	9.6
<b>Weighted average shares for fully diluted EPS</b>	<b>161.4</b>	170.8

## 6. Share buybacks and ESOT shares

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

	<b>Ordinary shares (no.)</b>	<b>Cost £m</b>
Shares in issue at 26 January 2013	161,234,237	
Shares purchased for cancellation	(3,737,646)	170.1
<b>Shares in issue at 27 July 2013</b>	<b>157,496,591</b>	

In addition, movements in NEXT plc shares held by the NEXT Employee Share Ownership Trust (ESOT) were as follows:

	<b>Ordinary shares (no.)</b>	<b>Cost/ (proceeds) £m</b>
Shares held by ESOT at 26 January 2013	6,531,837	
Shares purchased by ESOT	2,036,085	89.8
Shares issued by ESOT	(1,510,302)	(28.0)
<b>Shares held by ESOT at 27 July 2013</b>	<b>7,057,620</b>	

## 7. Other financial assets and liabilities

Other financial assets and other financial liabilities include the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks.

Other current financial liabilities at 27 July 2013 also included £48.3m (July 2012: £94.9m, January 2013: £83.3m) in respect of outstanding contracts entered into by the Company (and in the prior year, the ESOT) for the purchase of shares in NEXT plc. Subsequent to the balance sheet date, £7.8m of the commitment was fulfilled and the remainder was unfulfilled and had expired, thereby increasing total equity by £40.5m.

## 8. Other non-current liabilities

Other non-current liabilities relate to the long term element of property lease incentives received and liabilities which are not expected to be settled within one year.

## 9. Analysis of net debt

	January 2013 £m	Cash flow £m	Other non-cash changes £m	July 2013 £m
Cash and short term deposits	136.3			<b>94.1</b>
Overdrafts	(5.4)			<b>(4.0)</b>
	<hr/>			<hr/>
Cash and cash equivalents	130.9	(41.2)	0.4	<b>90.1</b>
Corporate bonds	(654.4)	-	7.5	<b>(646.9)</b>
Fair value hedges of corporate bonds	31.3	-	(7.6)	<b>23.7</b>
Finance leases	(0.4)	0.1	-	<b>(0.3)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net debt</b>	<b>(492.6)</b>	<b>(41.1)</b>	<b>0.3</b>	<b>(533.4)</b>
	<hr/>	<hr/>	<hr/>	<hr/>



# RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) The condensed set of financial statements has been prepared in accordance with IAS 34;
- b) The interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c) The interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

**Lord Wolfson of Aspley Guise**  
**Chief Executive**

**David Keens**  
**Group Finance Director**

12 September 2013

This statement, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at [www.nextplc.co.uk](http://www.nextplc.co.uk).

Certain statements which appear in a number of places throughout this Interim Management Report may constitute "forward looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to those matters highlighted in Note 2 of these interim financial statements; failure by NEXT to accurately predict 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; lack of sufficient consumer interest in NEXT Directory; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. These forward looking statements do not amount to any representation that they will be achieved as they involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to publicly update or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.