nєxt PLC

Results for the Half Year Ending July 2021

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CONTENTS

PART ONE
HEADLINES, FINANCIAL SUMMARY AND BIG PICTURE

HEADLINES

Performance in the Six Months to July 2021

- Brand full price sales[1] up **+8.8%** versus 2019 (and +62% against 2020).
- Profit before tax of £347m, up **+5.9%** versus 2019.

Sales Performance in the Last Eight Weeks

- Full price sales in the last eight weeks were up **+20%** versus 2019, materially exceeding our expectations. This compares with our previous guidance for the second half of +6%.

Upgraded Guidance for the Full Year to January 2022

- We are increasing our full price sales guidance for the rest of the year to be up **+10%** versus 2019.
- Forecast profit before tax (post-IFRS 16) now **£800m**, up +6.9% versus 2019 and +£36m ahead of our previous guidance of £764m.
- Year end net debt[2] forecast at **£610m**, a reduction of £502m against two years ago.
- Earnings Per Share forecast to be **516.9p**, up +9% versus two years ago.

NOTES ON THE PRESENTATION OF SALES AND PROFIT

Throughout this document, unless otherwise stated, comparisons of sales, profit and debt will be explained relative to *two years ago* (2019/20). The disruption to last year (2020/21) from COVID means that one year comparisons are generally not meaningful.

All profit figures given are stated on an IFRS 16 basis. A full explanation of the impact of IFRS 16 is given in the Appendix on ~~pages~~ 49 to 54.

[1] Full price sales are Total sales excluding VAT, less items sold in our mid-season and end-of-season Sale events, our Clearance operations and through Total Platform. These are not statutory sales (refer to Note 3 of the financial statements).

[2] Net debt excludes lease liabilities.

FINANCIAL SUMMARY

Brand full price sales in the first half were up **+8.8%** on 2019 and Brand total sales[3] (including markdown and Total Platform sales) were up **+8.4%**. On a statutory basis, total Group sales were up +5.2%. Profit before tax (post-IFRS 16) was **£347m,** which was **up +5.9%** versus two years ago.

SALES BY DIVISION

TOTAL SALES (VAT EX.) £m	July 2021	July 2019	2 Year var %	July 2020	1 Year var %
Online	1,522.5	1,004.9	+52%	862.6	+76%
Retail	540.1	874.3	- 38%	344.6	+57%
Finance	119.2	134.0	- 11%	127.9	- 7%
Brand	**2,181.8**	**2,013.2**	**+8.4%**	**1,335.1**	**+63.4%**
Other	33.9	45.6	- 26%	21.7	+56%
Total Group sales	**2,215.7**	**2,058.8**	**+7.6%**	**1,356.8**	**+63.3%**
Total Group statutory sales	**2,119.5**	**2,014.5**	**+5.2%**	**1,332.7**	**+59.0%**

PROFIT[4] AND EARNINGS PER SHARE

PROFIT £m and EPS	July 2021	July 2019	2 Year var %	July 2020	1 Year var %
Online	318.0	182.5	+74%	133.8	+138%
Retail	(17.8)	90.8	- 120%	(144.0)	- 88%
Finance (after funding costs)	65.6	75.8	- 13%	61.6	+6%
Brand	**365.8**	**349.1**	**+4.8%**	**51.4**	**+612%**
Sourcing, Property and Other[5]	11.0	13.9		(35.0)	
Recharge of interest to Finance	15.7	17.8		17.7	
Operating profit	**392.5**	**380.8**	**+3.1%**	**34.1**	**+1051%**
Lease interest	(27.3)	(32.1)		(29.2)	
External interest	(18.5)	(21.3)		(21.4)	
Profit / (loss) before tax	**346.7**	**327.4**	**+5.9%**	**(16.5)**	
Taxation	(57.1)	(60.5)		5.0	
Profit / (loss) after tax	**289.6**	**266.9**	**+8.5%**	**(11.5)**	
Earnings Per Share	**226.8p**	**204.4p**	**+11.0%**	**(9.0)p**	

[3] Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 3 of the financial statements). The difference in the respective growth of Total Sales and Statutory sales is explained in the Appendix.

[4] Profit by division in July 2020 and 2019 is re-stated for IFRS 16. A full explanation of the impact of IFRS 16 is given in the Appendix on page 52.

[5] Other includes Franchise, Lipsy and other Group costs (see page 43).

BIG PICTURE

WHERE WE STAND TODAY

General Slim's advice...

General William Slim observed that, in battle, nothing is ever as good or as bad as the first excited reports would have it[6]. His observation would have been very helpful for those managing a business through the pandemic. As it turned out, our gloomiest projections, made at the nadir of the crisis, were a long way off the mark.

Throughout the pandemic, demand for goods Online was stronger than we could have hoped, particularly in Home and Childrenswear. This served to fill much of the gap left by Retail store closures, a trend that appears to have strengthened in the lockdown at the start of this year.

An unexpected post lockdown bounce

When stores opened in mid April, the Retail bounce-back was far stronger than we anticipated. Sales in Retail stores have done better than planned, while Online sales have fallen back less than we expected. It appears that the wider economy has not suffered the long term damage many feared, for the moment at least. And, in particular, employment has held up well.

The positive sales trend has continued through August into the second half, despite significant stock shortages caused by COVID disruption to international supply chains. As a result (and not without some embarrassment) we are upgrading our guidance for the fourth time this year.

Things may not be as good as they appear today

It would be wise to heed the other half of the General's advice; it is almost certain that underlying conditions are not as good as they currently appear. The combined effect of pent-up demand for clothing, record savings ratios[7], and far fewer overseas holidays has materially boosted sales in recent months. The impact of these factors must inevitably diminish as time goes on. It also seems likely that increases in the cost of living, along with the potential effect of seasonal labour shortages on our delivery service, may moderate demand in the months ahead (see page 22).

But we have the prospect of a return to long term growth

But despite these caveats, stepping back from the noise of day-to-day trading, the longer-term outlook for NEXT appears to be more positive than it has been for many years.

There are two reasons for this optimism: firstly, the financial drag of our Retail business has diminished. Secondly, within the last two years the scale and breadth of our Online opportunities have materially increased. The combined effect of (1) the development of our own NEXT product ranges, (2) the accelerated increase in our customer base, (3) the growing success of LABEL and (4) the launch of our Total Platform business, hold out the prospect of a return to long term growth for the Group.

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[6] Slim, Field-Marshal Viscount William. Defeat Into Victory, Chapter XII.

[7] Saving ratios reported by the ONS for the last four quarters were as follows: 19.9% in Q1 2021; 16.1% in Q4 2020; 14.3% in Q3 2020; and 25.9% in Q2 2020. This compares to a previous record of 14.4% in 1993.

ONLINE OPPORTUNITIES

The development of the NEXT Brand continues at pace

Liberated from the physical constraints of the four walls of retail shops, our product teams have flourished; pushing the boundaries of our designs; with greater choice of fabrics, prints and fits across a wider range of sizes and over a broader span of prices. In addition, they have expanded into new product categories, extending the reach of the NEXT brand, from performance sportswear through to garden furniture.

In all of these efforts we are guided and constrained by one overarching principle - we must genuinely create value for our customers**;** whether through better design, improved quality or an unexpectedly good price - and preferably all three. Simply producing products that are widely available elsewhere with a NEXT label sewn in, is no recipe for success - we must be, at all times, better by design.

Growing ambitions for LABEL

Alongside the diversification of our own product offer, we have continued to broaden the offer of third-party Clothing, Home and Beauty goods sold on our website. This has been achieved partly through the addition of new brands, but mainly through the extension of ranges from existing partners. In this respect, the proliferation of our Platform Plus operating system, which allows us to draw on stock only available in our partner's warehouse for distribution through our own fulfilment network, has been particularly important (see page 29).

Our ambition remains simple: we want to be our branded partners' most profitable third-party route to market. We recognise that LABEL can only be successful if it treats its Brands as valued clients rather than 'suppliers'. To that end, in August, we lowered our commission rate on clothing for the third time in three years; passing on the benefits of the economies of scale we have achieved this year.

We have further enhanced our branded offer through the manufacture of products under licence from partner brands, such as Baker childrenswear by Ted Baker and Men's formalwear by Joules. This business focuses on specialist product areas, such as childrenswear, upholstered furniture and lingerie. It allows us to combine our experience in product sourcing and product technology, with the design inspiration of partner brands, delivering products that neither business could produce alone.

Promoting LABEL through co-funded marketing

Up until this year, we have struggled to profitably promote LABEL products through adverts placed on third-party media. The margin we make on sales generated by these adverts is insufficient to pay for their cost because, of course, much of the profit rightly goes to our partners.

This year we have successfully collaborated with selected partner brands to co-fund external digital campaigns. The results have been very encouraging, with both parties making strong returns on adverts neither would profit from if we funded them alone. We are looking to aggressively extend this program in the year ahead and hope it will further increase awareness of LABEL's extensive offer.

Customer growth and increasing returns on digital marketing

In January of this year, our active[8] Online customer base had increased to 8.4m, an increase of 40% in two years. Of course, lockdown has played a big part in boosting customer numbers. However, we believe there is also another factor at play here. Over the last few years, we have progressively increased our investment in marketing professionals, data scientists, and marketing software. Alongside these investments, we have deepened our working relationships with key digital partners.

The result of these investments has been a sustained increase in the measurable returns delivered by digital marketing. This has enabled us to materially increase investment, without compromising our profit hurdles. In the current year, we expect to spend at least £100m marketing Online[9], and we intend to further increase this investment by at least another £15m next year. (See page 32.)

Total Platform is born...

Total Platform takes us beyond the confines of our own website, offering client brands the benefits of our technology, warehousing, logistics and other infrastructure, for the benefit of their own online operation. We now have six clients signed up to Total Platform: Childsplay Clothing, Laura Ashley, Victoria's Secret[10], Aubin, Reiss and GAP[11]. Four of these clients are successfully trading on the Platform with the others launching over the next twelve months. See page 34.

The delivery of the Reiss Platform, in Spring 2022, will be our most ambitious and comprehensive to date. It will materially increase Total Platform's capabilities, providing services such as delivery to wholesale customers, concession partners and overseas retail stores, along with a suite of tax and import functionality, including the provision of bonded UK warehousing.

Equity investments in client brands

In the process of developing this new business, we have come to believe that the potential to create value for clients is so great, that it is worth the Group investing in new clients as and when they sign up for the service. To that end, we have acquired equity stakes in Victoria's Secret UK and Eire (51%), Aubin (33%), Reiss (25%) and Gap UK and Eire (51%).

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

[9] Online marketing includes all costs associated with Online advertising and web-creation, including the cost of staffing the marketing department.

[10] This venture is jointly owned with Victoria's Secret parent company, Victoria's Secret & Co. The JV has a seven year licence for Victoria's Secret and Pink products in the UK and Eire.

[11] This venture is jointly owned with Gap Inc. The JV has a seven year license to sell Gap products in the UK and Eire (see page 34).

THE BIG UNCERTAINTIES

There are four big uncertainties as we move forward into the second half of the year. The first is an internal question about the stability and future performance of the new Online customer base recruited during lockdown. The other three questions relate to the external environment, and the extent to which stock shortages, inflation and labour shortages might affect the months ahead.

Are lockdown customers here to stay?

There is a possibility that customers recruited during lockdown, having been forced by necessity to shop online during the pandemic, will spend less, and not be as loyal as the pandemic recedes. It is too early to give a definitive answer to this question, but the evidence we have is encouraging. It suggests that the retention and re-order rates of customers recruited during lockdown are at least as good as customers recruited in more normal times, if not better (for more detailed analysis see page 10).

Will stock shortages materially affect the business this year?

Disruption to our supply chain means that stock levels are lower than planned and, currently, 12% down on two years ago. These stock levels are far from optimal and have noticeably affected sales in some categories and in stores. However, our recent over-performance would imply that the business as a whole has not materially suffered, perhaps because, with so much choice available, it is easier to find alternatives on our website. The situation is currently improving and we expect stock to return to more normal levels by December.

Is cost price inflation pushing up our prices?

Average selling price inflation in the current season is running at around 2%, with price rises focused mainly on larger Home products. This inflation, driven by rising shipping costs, is more than we would like but, we believe, not enough to materially restrain sales. Looking to next year we anticipate selling price inflation of around 2.5% in the first half and that inflationary pressures in shipping will begin to ease as we move through the second half of next year. For more detailed analysis see the outlook on page 23.

Will labour shortages affect our operations?

Generally, we have not experienced difficulties in recruiting staff, particularly in our stores. Our main concern is staffing for the seasonal peaks in warehousing and logistics. Without the contribution of overseas workers to assist with these peaks, we suspect customer deliveries may take longer to arrive as we go into the peak trading season. For further analysis and NEXT Comment see page 23.

THE CHALLENGES AHEAD

Execution is 90% of the battle

It would be a mistake to be overly impressed with the possibilities for NEXT Online without appreciating the scale of the work required to make a success of them. It is not enough for us to have a plausible 'strategy'; success will, in the main, depend upon the quality of our execution; on our ability to adapt and develop our organisation to deliver sensible decisions and actions at every level. Failure to execute well, in most areas of the business, will materially undermine our ability to grow sales and profits. In the coming months two areas are of particular importance: Warehousing and Technology.

Ensuring our warehouses keep up with demand

Until we open our new highly mechanised boxed warehouse towards the end of 2023, servicing growth Online through our existing warehouses will be a challenge. We have meticulously planned the next two years and continue to invest, innovate, recruit and mechanise to ensure we maximise capacity within our existing estate. Our warehouse teams have done an outstanding job, and already delivered significantly more production than we thought possible. Over the next two years we are confident that we can achieve our ambitions for Online growth *and* take on a limited number of new Total Platform clients, but it will require further investment and near perfect execution. See page 12.

Modernising our Technology

If we are to continue to deliver the software at the pace the Company needs, we will have to invest a considerable amount of time, money and thought in modernising the codebase of all eight of our main software systems. This process began two years ago, and the aim, over time, is to dramatically improve our development capabilities alongside improving the scalability of our software.

This is not a high risk big-bang development, but rather, a piece-by-piece rewrite of our systems, undertaken alongside the continuing development of our legacy code; in such a way that it does not impede the pace at which we develop new applications for the business. See page 14.

The many other challenges

We do not mean to imply here that Warehousing and Technology are the only executional challenges we face. They are the biggest, but there are many others. Our product teams must continue to push the boundaries of their designs; our LABEL business must continue to recruit new clients whilst increasing our offer with existing brands; we are planning a step-change in the level of our Online customer service we provide, with all the new skills and technology that requires; Total Platform must deliver the Reiss and Gap platforms, whilst building a pipeline of potential new clients; our Retail teams must continue to manage down the costs of our store portfolio whilst developing new and better ways to complement our Online business; our Online marketing teams must maximise the full potential of digital marketing whilst rigorously adhering to the financial disciplines that keep their endeavours profitable....the list goes on!

A daunting but exciting world...

The daunting fact is this: little other than outstanding execution and constant innovation, across the entire business, will enable us to maximise the ever-changing opportunities and challenges of an increasingly online world. It is a tall order, but we are in the fortunate position of having that chance.

PART TWO

THREE IMPORTANT QUESTIONS ANSWERED

This section focuses on answering three important questions:

- Are the Online customers we recruited during lockdown here to stay?
- Can our warehouse capacity cope with the growth expected online?
- Is our technology ready?

This section seeks to answer each question in turn.

ARE THE CUSTOMERS WE RECRUITED DURING LOCKDOWN HERE TO STAY?

In the last eighteen months we have seen a significant increase in our customer base. So perhaps the most important question at this point is how the customers recruited during the pandemic will behave going forward. It is too early to give a definitive answer, but the initial signs are encouraging with lockdown customers appearing to perform in a very similar, if not better, way to customers recruited in more normal times.

Customers recruited last year have now been trading with us for between six and eighteen months and provide some insight into their ongoing sales per customer and retention rates.

ANALYSIS OF CUSTOMER RETENTION RATES

The table below shows the number of customers recruited in the twelve months to January 2021 and compares them to those recruited in the year ending January 2019 (i.e. customers recruited before the pandemic). It is split into four quarterly cohorts.

The second line in both tables shows the number of customers in each cohort that are still active in September 2021 and September 2019 respectively. The percentage given in the last line in each table is the retention rate. As can be seen the average retention rates of customers recruited during lockdown is actually rather better than the historic rates, which is encouraging.

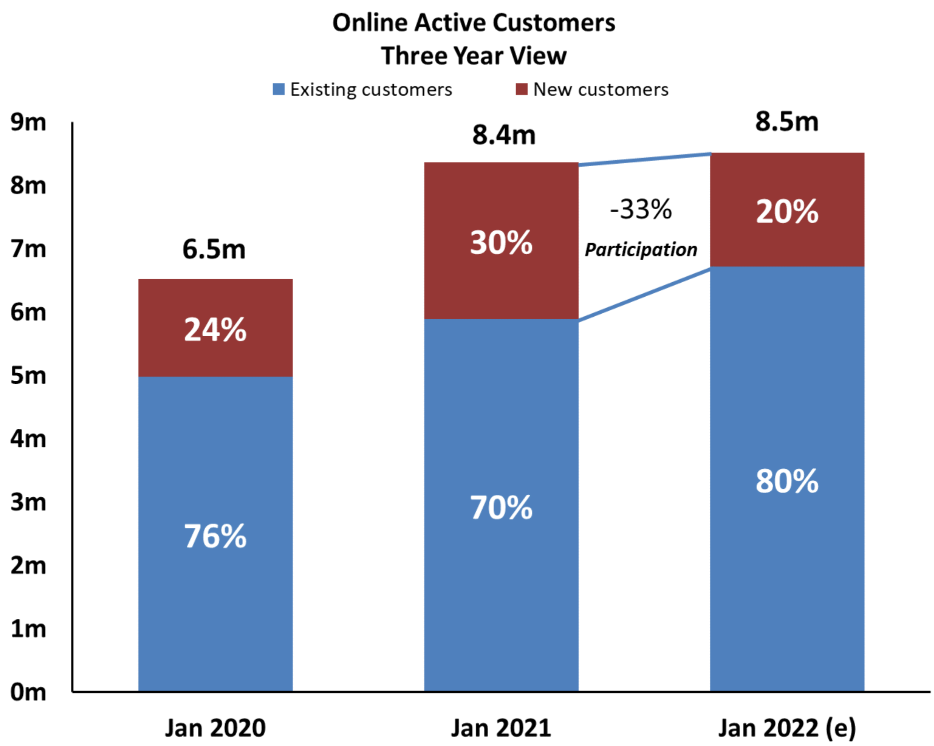
2020/21 Recruitment	**Feb - April**	**May - July**	**Aug - Oct**	**Nov - Jan**	**TOTAL**
Customers recruited	369k	761k	749k	1,431k	**3,310k**
Still active in Sept. 2021	85k	183k	183k	275k	**726k**
Retention rate	23.2%	24.0%	24.5%	19.2%	**21.9%**

2018/19 Recruitment	**Feb - April**	**May - July**	**Aug - Oct**	**Nov - Jan**	**TOTAL**
Customers recruited	436k	451k	496k	806k	**2,189k**
Still active in Sept. 2019	80k	92k	104k	147k	**423k**
Retention rate	18.4%	20.4%	21.0%	18.3%	**19.3%**

THE OUTLOOK FOR CUSTOMERS GOING INTO NEXT YEAR

We do not expect the same surge in recruitment this year as we experienced last year during the pre-Christmas lockdown. So, we expect our customer numbers at the end of the year to be no higher than the numbers in January 2020. However, the *quality* of the customer base going into next year is likely to be materially better than at the start.

This is because new customers, and in particular those recruited in the run up to Christmas, have very low retention rates. This year we are not expecting the same surge in pre-Christmas recruitment, so the proportion of high quality, established customers should be much greater. This is demonstrated in the graph below.



CAN OUR WAREHOUSE CAPACITY COPE WITH THE GROWTH EXPECTED ONLINE?

The growth in our Online business, along with the addition of new Total Platform customers, has placed considerable pressure on warehouse capacity. The warehouse closest to its limits is our boxed garment warehouse which handles around 70% of our Online sales.

In the longer term, additional capacity will be provided by a new, highly mechanised boxed warehouse (Elmsall 3). This building is currently under construction next to our current site, so that it can be integrated with existing operations. Phase 1 is planned to be operational in October 2023 and will increase capacity by **+45%**. Phase 2, which extends the mechanisation within the new building, is expected to add a further **+45%** and we believe this could be delivered within 18 months of deciding to fit out the additional space.

Over the next two years, the challenge will be to accommodate Online growth within our existing estate. To that end, we plan to deliver a number of capital projects and changes to working practices that will materially enhance capacity in our existing warehouses.

MAXIMISING BOXED CAPACITY 2021-2023

2021

Our weekly boxed picking capacity of **3.9 million** units is fifteen percent higher than it was two years ago. During the current year, warehouse capital projects have increased capacity through:

- The addition of a fifth packing sorter, at a cost of £7m, increasing boxed packing capacity by 10%.
- The replacement and upgrading of the reserve to forward conveyor system (at a cost of £5.4m).
- The addition of auxiliary conveyors to improve the warehouse resilience.
- The addition of 40,000 forward picking locations.

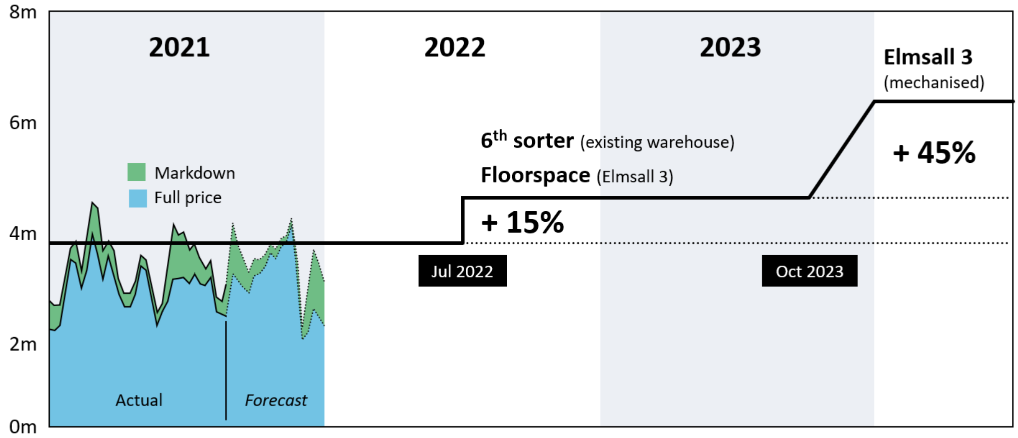
2022

In July 2022, floorspace will become available in the shell building of our new Elmsall 3 warehouse. The plan is to take some of the space not needed for the first phase of mechanisation, and use it to create additional forward picking locations. A sixth packing sorter will also become operational in our existing warehouse. Overall, these will deliver a 15% increase in picking capacity which will, amongst other things, allow us to take on Total Platform operations for Gap (see page 34) and potentially one further client.

2023

In October 2023 the first mechanised phase of Elmsall 3 will be operational, increasing capacity by +45%.

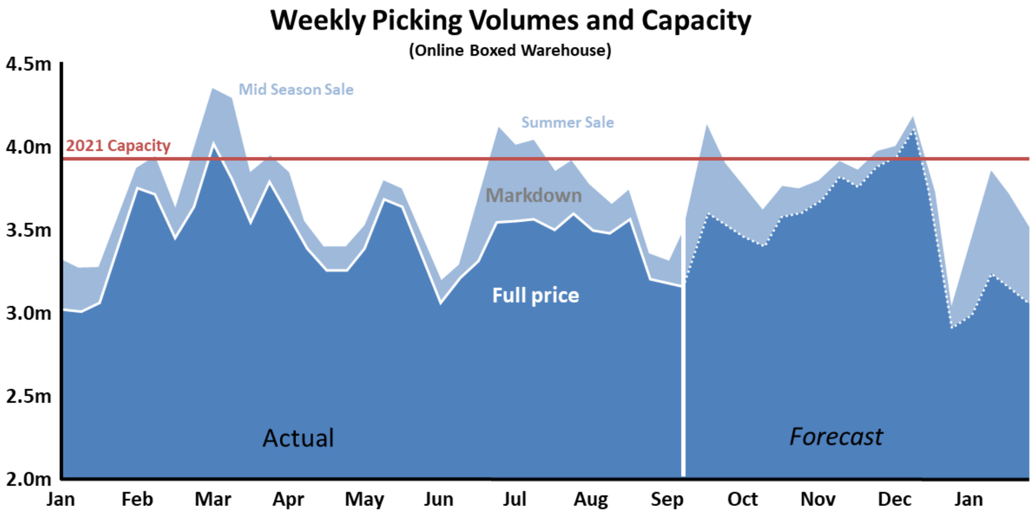
Weekly Picking Volumes (Main Boxed Warehouse)



PICKING AND CAPACITY FORECAST TO JANUARY 2022

The chart below shows our boxed warehouse's weekly picking volumes for the year to date and our forecast picking for the rest of this year. The dark blue area chart shows weekly full price pick volumes and the lighter blue area shows markdown pick volumes. The red line shows our picking capacity.

For most of the rest of this year, we expect that demand will be comfortably within our capacity constraints, though there are likely to be some pressure points in December.

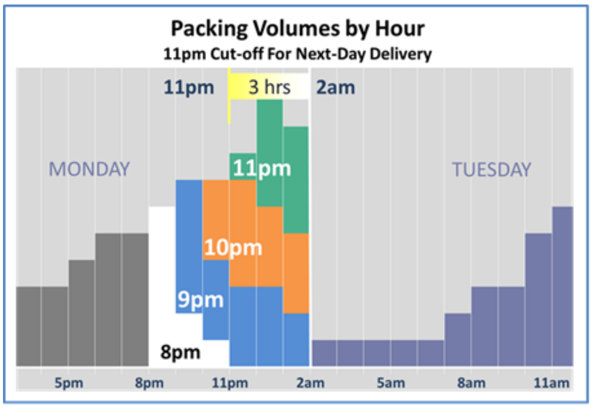


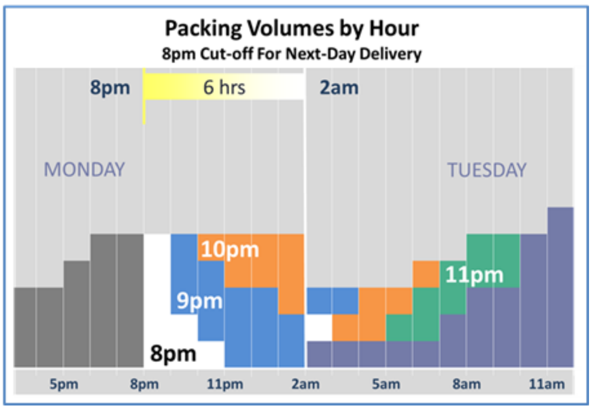
Do we have the capacity to beat our forecasts?

In the event we beat our forecasts, we can operate *above* our current capacity limits BUT only at the expense of our service levels. This is because we can bring forward our cut-off time for next-day delivery, from 11 pm to slightly earlier in the day, and move picking and packing customer parcels from peak evening hours to a much quieter period in the early hours of the following morning. The two charts below help illustrate this point.

The chart on the left shows an example of packing volumes by hour (orders placed after 11 pm are shown in green, orders placed after 10 pm are shown in orange, and so on). With an 11 pm cut-off for next-day delivery, there is a three hour window to pack all parcels before the 2 am deadline for leaving the warehouse. The chart illustrates the evening peak and the spare capacity that exists in the early morning of the next day.

By way of example, by moving to an 8 pm cut-off (the chart on the right), we can move packing volumes into the early hours of the following day, when there is plenty of capacity. We then have six hours to pack orders placed before 8 pm for next-day delivery.





IS OUR TECHNOLOGY READY?

A TECHNOLOGY DRIVEN BUSINESS

A Culture of In-House Development

NEXT has traditionally taken the view that designing and delivering great IT systems is an intrinsic part of being a great retailer. Over the years we have written almost all of our major operational systems applications in-house - from tills to websites, warehousing to buying, merchandising, business reporting, call centres, resource planning, stock allocation and more.

Of course, we buy in some software packages; either to deliver specialist coding routines, such as the artificial intelligence (AI) behind our website search engine, or for generic functions such as payroll and general ledger. But it would be as unthinkable for us to contract out our core operational systems as it would be to contract out the designing of our clothing ranges. It may come as a surprise to many that we now employ as many people in our Technology teams as we do in our Buying and Merchandise departments. This is indicative of just how important technology has become to the development of NEXT's business.

LEGACY SOFTWARE - A VALUABLE INHERITANCE AND A CHALLENGE

The Inheritance

NEXT's repository of bespoke specialist retail software, alongside the ability to rapidly adapt and design those systems, has been central to the development of our Online business. So much so, that we are beginning to deploy those systems through Total Platform for the benefit of other brands who want to turbocharge the development of their online businesses.

We believe that this *in-house first* approach to building retail applications has meant that we have been able to deliver better systems, at less cost and greater speed. But the relentless focus on delivering new applications and constant modification of existing systems has left us with a significant challenge. The reality is that many of our legacy systems, though robust and effective, are becoming more and more inefficient to develop.

The Nature of the Challenge

The layers of historic code are making the development of new code more difficult. In particular, the interdependence of our systems within large monolithic coding structures, means that a change in one application can have unforeseen consequences in other systems. This makes testing and deploying new systems take much longer than it should. And in a world where the business can often only move as fast as its technology, that is a hindrance.

The Solution

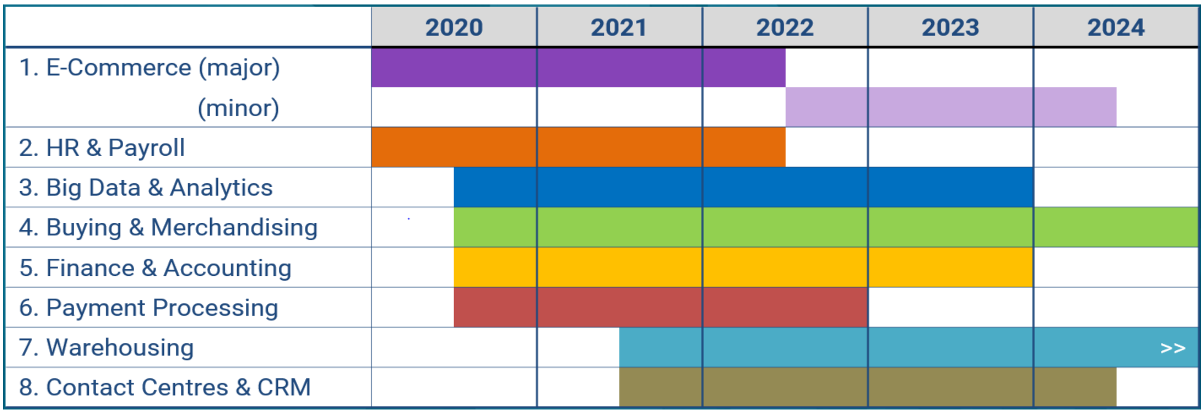
Two years ago we began the process of modernising our website software, which is now well underway for our E-commerce platform. As set out in our results presentation in March 2020, the process does *not* involve a big-bang rewrite of the entire system, with all the risks and costs involved in such developments. Instead, we are taking a step-by-step approach, redeveloping individual modules of code that are written and released to run alongside a (progressively smaller) legacy system.

Vitally, the modernisation process segregates code into discrete 'containers', independent applications ('products') that can be adapted and changed without the need to retest the whole system. As this process continues, this endeavour will give us the ability to design, build, test and deliver systems at a faster rate and lower cost than ever before.

TIMETABLE COSTS AND CONTINUED DEVELOPMENT

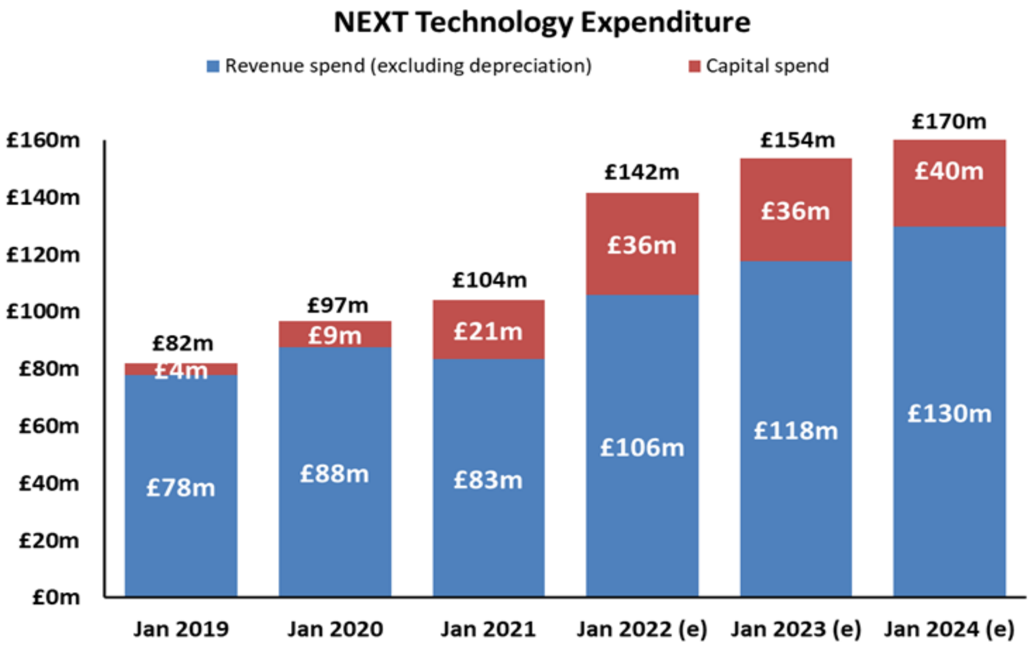
Timetable

Over the next four years we plan to modernise all eight of our major system domains. The timetable is set out in the chart below (we have split E-Commerce into major and minor projects).



Costs

We currently estimate that the capital and revenue costs for this year and the next two years will amount to £466m, of which £112m will be capitalised. The graph below puts these modernisation costs into context, showing expenditure over the last three years.



Time and Tide Wait for None

NEXT's IT systems cannot afford to stand still while its platforms are modernised over the next three years. So we will continue delivering new applications on legacy systems whilst rewriting those systems in the background. Inevitably, there will be some wasted code - new applications developed in our legacy systems will have to be rewritten a short time afterwards in new code. We think it is a price worth paying; the retail environment is not going to stand still while we modernise, so nor can we. The costs of this parallel development have been factored into our modernisation costs.

REORGANISATION

The twin challenges of modernising our software whilst continuing to develop new applications requires us to rethink how we organise our Technology teams.

> **Explanatory note:** Confusingly for a retailer, in the technology sector software applications are normally referred to as 'products' and we have adopted that convention here. So bear with us - when we refer to products in this section we are referring to software applications not garments!

Project to Product Based Structure

Over the last six months we have begun the process of reorganising the way in which our Technology teams are structured. This involves moving from a *project-based* management structure, where teams are geared up to managing individual projects that might range across a number of different applications, to an application or *product-based* structure.

In yesterday's world, where applications rarely changed, it made sense to organise scarce systems resources to serve individual projects. Today, most applications are in constant flux and business processes are ever more complex. So, developers need a forensic understanding of the code *and* the business processes their products facilitate. Our new structure retains knowledge where it is most useful and allows them to focus on the constant improvement of their part of the business.

Aligning and Enhancing our Infrastructure Expertise

We are also reorganising the Infrastructure teams that manage our network, mainframe, till and cloud technology. This reorganisation has two elements:

- The **alignment** of our Infrastructure engineers to sit alongside the Development product areas they serve.
- The addition of greater **expertise** through the recruitment of senior specialists (architects) in all critical infrastructure technologies. This will make us less dependent on external advice and ensure that we engineer the latest infrastructure technologies into new developments.

Recruitment and Rewards

In the last four years we have doubled our developer resource to around 500 employees and, in total, our Technology team has grown to around 1,100. In order to make our roles more attractive, we have recently reviewed the Technology grading structure, career paths, benefits and starting salaries. The aim is to create an environment where good people can advance their careers in a department teeming with opportunities.

PART THREE

GROUP FINANCIAL PERFORMANCE AND FULL YEAR GUIDANCE

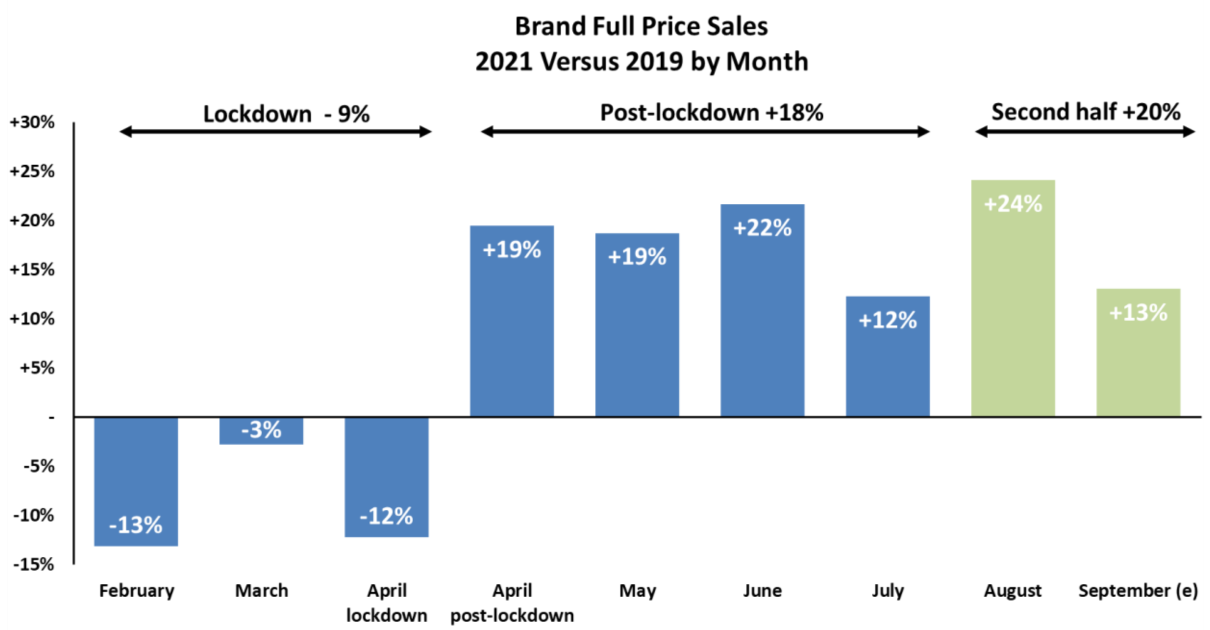
FIRST HALF SALES AND PROFIT ANALYSIS

FULL PRICE SALES PERFORMANCE BY MONTH

Brand full price sales in the first half were up +**8.8%** versus 2019.

Full price sales were down in February and March, when most of our Retail stores were closed for ten weeks. They recovered strongly once the majority of our stores reopened on 12 April, boosted, we believe, by pent-up demand in April and very warm weather in June.

Full price sales in the second half have also started strongly. We believe that August and, to some degree, the beginning of September were boosted by more people taking holidays in the UK. For the rest of the year we are forecasting full price sales to increase by +10% which is more in line with the sales growth we saw in July and September.



SALES AND PROFIT BY DIVISION

Brand total sales[12] (including markdown and Total Platform sales) were up **+8.4%**. On a statutory basis, total Group sales were up +5.2%. Profit before tax (post-IFRS 16) was **£347m,** which was up **+5.9%** versus two years ago.

SALES BY DIVISION

TOTAL SALES (VAT EX.) £m	July 2021	July 2019	2 Year var %	July 2020	1 Year var %
Online	1,522.5	1,004.9	+52%	862.6	+76%
Retail	540.1	874.3	- 38%	344.6	+57%
Finance	119.2	134.0	- 11%	127.9	- 7%
Brand	**2,181.8**	**2,013.2**	**+8.4%**	**1,335.1**	**+63.4%**
Other	33.9	45.6	- 26%	21.7	+56%
Total Group sales	**2,215.7**	**2,058.8**	**+7.6%**	**1,356.8**	**+63.3%**
Total Group statutory sales	**2,119.5**	**2,014.5**	**+5.2%**	**1,332.7**	**+59.0%**

PROFIT[13] AND EARNINGS PER SHARE

PROFIT £m and EPS	July 2021	July 2019	2 Year var %	July 2020	1 Year var %
Online	318.0	182.5	+74%	133.8	+138%
Retail	(17.8)	90.8	- 120%	(144.0)	- 88%
Finance (after funding costs)	65.6	75.8	- 13%	61.6	+6%
Brand	**365.8**	**349.1**	**+4.8%**	**51.4**	**+612%**
Sourcing, Property and Other[14]	11.0	13.9		(35.0)	
Recharge of interest to Finance	15.7	17.8		17.7	
Operating profit	**392.5**	**380.8**	**+3.1%**	**34.1**	**+1051%**
Lease interest	(27.3)	(32.1)		(29.2)	
External interest	(18.5)	(21.3)		(21.4)	
Profit / (loss) before tax	**346.7**	**327.4**	**+5.9%**	**(16.5)**	
Taxation	(57.1)	(60.5)		5.0	
Profit / (loss) after tax	**289.6**	**266.9**	**+8.5%**	**(11.5)**	
Earnings Per Share	**226.8p**	**204.4p**	**+11.0%**	**(9.0)p**	

[12] Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 3 of the financial statements). The difference in the respective growth of Total Sales and Statutory sales is explained in the Appendix.

[13] Profit by division in July 2020 and 2019 is re-stated for IFRS 16. A full explanation of the impact of IFRS 16 is given in the Appendix on page 51.

[14] Other includes Franchise, Lipsy and other Group costs (see page 43).

FIRST HALF LOCKDOWN SALES AND PROFIT IMPACT

Estimating Lost Sales

Estimating lost sales during lockdown is not straightforward. It is necessary to take a view of what Retail stores would have taken were they to have been open and how much sales Online benefitted from the store closures. For the purposes of this exercise, we have assumed that, versus 2019:

- Retail sales would have been -12%, a compound annual growth rate **(CAGR) of -6%.**
- Online sales would have been up +30%, a **CAGR of +14%**.

Estimated Loss of Profit in Retail

We estimate Retail lost around c.£250m of full price sales whilst stores were closed, recovering £20m from pent-up demand once they reopened. This would have resulted in Retail lost profit of -£86m, as explained in the table below.

£m (e)	**Sales**	**Profit impact**
Sales lost during 10 week lockdown	(250)	(135)
Sales gained from post-lockdown pent-up demand	20	10
Net impact of lockdown	**(230)**	**(125)**
Business rates relief[15]		20
Other cost savings during lockdown (utilities and maintenance)		5
Central costs recharged to the Online business		14
Estimate of Retail profit impact from lockdown		**(86)**

Estimated Profit Gained Online and Total Impact

We estimate that Online gained c.£155m of full price sales which, after accounting for (1) the benefit from the lower returns rate during lockdown (see page 26) and (2) additional recharges from Retail, boosted profit by +£66m.

So, for the Group, we estimate that the profit impact of lockdown was around -£20m as set out in the table below.

£m (e)	**Sales**	**Profit impact**
Online sales over-achievement	155	60
Benefit of lower returns rate		20
Central costs recharged from Retail to the Online business		(14)
Estimate of Online profit impact from lockdown	**155**	**66**
Estimate of Retail profit impact from lockdown	**(230)**	**(86)**
Estimate of lost Group sales and profit	**(75)**	**(20)**

[15] Business rates relief claimed only for the period of time the stores were closed. The £29m of business rates relief the Company is entitled to in this financial year, for the period the stores have been *open*, will be returned to the Government (see page 41).

FULL YEAR SALES, PROFIT OUTLOOK AND GUIDANCE

FULL PRICE SALES GUIDANCE

Forecast For the Rest of the Year in Context

We have increased our full price sales estimate for the rest of the year from up +6%, to +10%. The table below shows the full year figures in the context of what we have achieved in the first half and second half to date, along with our forecast for the rest of the year.

Full price sales 2021/22 versus 2019/20 (2 years)	
First half	+8.8%
Second half to date	+20%
Rest of year	**+10%**
Second half	+12.4%
Full year	**+10.7%**

Full Year Forecast by Division

Our guidance for full year full price sales is set out by business division in the table below.

Full price sales 2021/22 versus 2019/20 (2 years)	H1 actual	H2 guidance	Full year guidance
Online	+55%	+34%	+44%
Retail	- 40%	- 11%	- 25%
NEXT Finance interest income	- 11%	- 5%	- 8%
Total full price sales	**+8.8%**	**+12.4%**	**+10.7%**

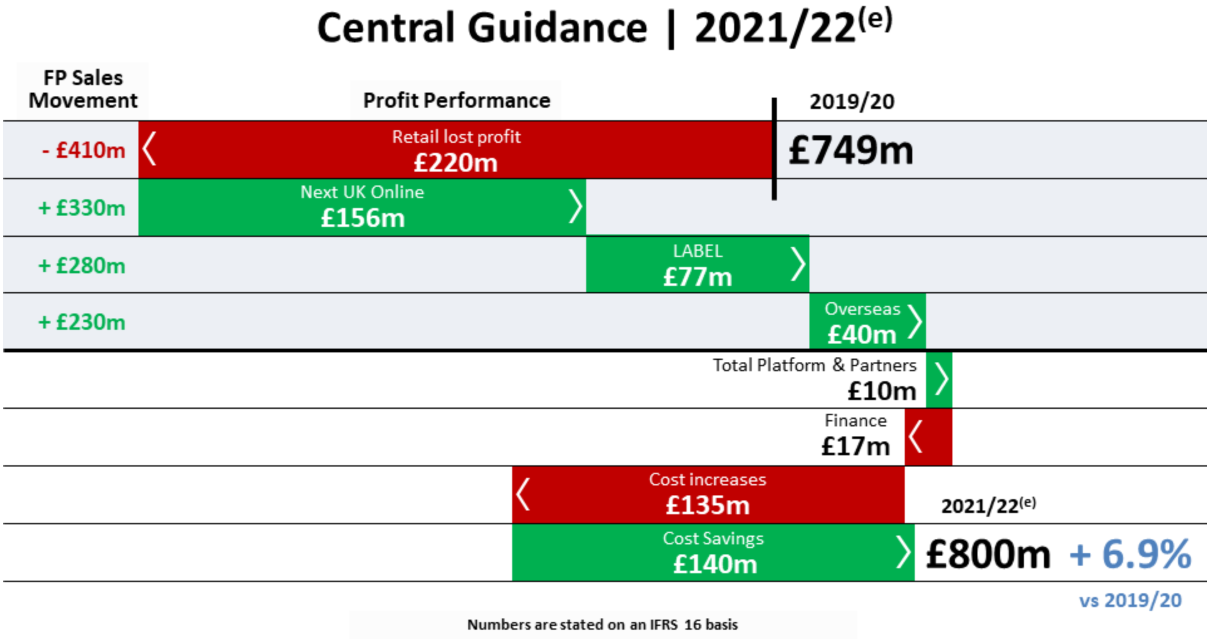
PROFIT GUIDANCE

Profit before tax, EPS and net debt	Full year guidance	Versus 2019/20	Previous guidance[16]
Group profit before tax	**£800m**	+6.9%	**£764m**
Earnings Per Share	516.9p	+9.4%	494.1p
Year end net debt (excluding lease liabilities)	£610m	- 45%	£610m

[16] The previous guidance of £764m, given in our July Trading Statement, is on an IFRS 16 basis and is comparable with the new guidance of £800m. July's Trading Statement gave guidance both pre-IFRS 16 (£750m) and post-IFRS 16 (£764m). All profit figures are now given post-IFRS 16.
EPS guidance was not issued in our July Trading Statement, the figure quoted was our forecast at that time.

FULL PRICE SALES AND PROFIT MOVEMENTS

The graphic below sets out how the forecast change in **full price** sales in each business division is expected to impact on profit, relative to 2019/20, along with the cost savings and cost increases we are forecasting for the full year.



COST SAVINGS AND COST INCREASES FOR THE FULL YEAR (e)

A summary of the significant cost savings and cost increases is summarised below.

Cost savings £m	**Jan 2022 (e)**
Catalogues and photography	+30
Fully depreciated assets	+25
Lower occupancy costs and other Retail savings	+24
Lower Online returns rate (£20m in H1)	+24
Business rates relief	+20
Lower external interest costs	+9
Other Group savings	+8
Total cost savings	**+140**

Cost increases £m	**Jan 2022 (e)**
Inflation (including wage inflation)	- 40
Staff incentives	- 33
Warehousing and distribution	- 15
NEXT Technology	- 15
Freight	- 15
Lower clearance rates	- 11
Other cost increases	- 6
Total cost increases	**- 135**

STOCK LEVELS, INFLATION, LABOUR SUPPLY AND BREXIT

Brexit

The financial and operational costs of Brexit have not been material for NEXT, mainly as a result of the extensive preparation undertaken over the last three years. The only meaningful increase in costs is from inflated brokerage costs, levied by freight forwarders and third-party customs agents, amounting to around £5m. We expect to eliminate the majority of these costs by next year through renegotiation and potentially bringing some processes in-house.

Stress in the Supply Chain

Over the last few months, the combination of resurgent demand in developed economies, alongside continuing COVID disruption in factories and shipping routes, has delayed deliveries and produced a sharp spike in 'spot' shipping prices.

Inflation Today

NEXT had pre-purchased the majority of this year's shipping requirements, so the squeeze on transport prices only affected around 15% of our shipments. These increases have added around 2% to average selling prices in the second half, with large Home goods bearing the brunt of the increase.

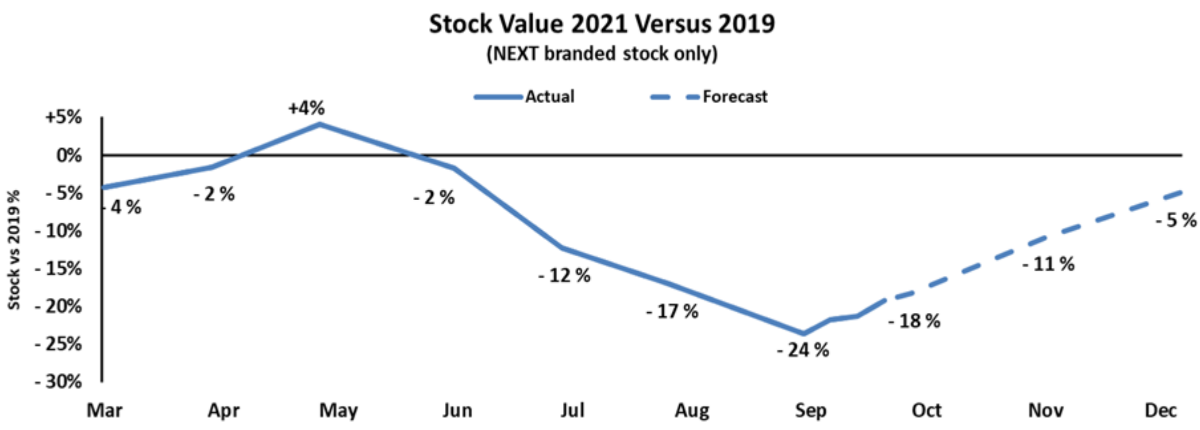
Stock Levels Today

For the last few months stock levels have been below optimal and are currently -12% down against two years ago, though part of this shortfall results from the over-performance against our sales targets.

With stock levels so low, we need to ask how we have managed to exceed our sales expectations at all? We think the answer lies partly in just how strong demand has been post lockdown. But we also suspect that, Online at least, we can now manage with lower stock covers; because the breadth of choice on our website is at the point where many stock-outs can be substituted with a similar alternative item.

Steady Improvement and Forward Looking Prices

International supply chains are steadily improving, as shipping backlogs clear and factories return to more normal levels of operation. Looking ahead to next year, the price of *future* shipping contracts is falling and already much lower than today's spot prices. The graph below shows NEXT stock levels (excluding LABEL) through the year and our forecast looking forward. As can be seen we are already recovering from the low point and expect stock levels to return to more normal levels as we go into December.



Outlook for Prices in the Year Ahead

We expect cost price inflation in the first half of next year to average at +2.5%, with fashion prices rising +1% and Homeware by +6%.

We anticipate cost price inflation to rumble on through most of next year, albeit at levels that are not overly worrying. So perhaps inflation will be rather less temporary than official guidance might suggest, but certainly not as concerning as some of the more excited reports we read.

Labour Shortages

As yet, we are not experiencing material difficulties in recruiting for stores and most head office functions. However, some areas of the business are beginning to come under pressure, most notably staffing for peak seasonal demand in warehousing and logistics. We anticipate that, without some relaxation of immigration rules, we are likely to experience some degradation in our service in the run up to Christmas.

NEXT COMMENT

The HGV crisis was foreseen, and widely predicted for many months. For the sake of the wider UK economy, we hope that the Government will take a more decisive approach to the looming skills crisis in warehouses, restaurants, hotels, care homes, and many seasonal industries. A demand led approach to ensuring the country has the skills it needs is now vital.

PART FOUR

ONLINE, FINANCE AND RETAIL

FINANCIAL PERFORMANCE, COMMENTARY AND GUIDANCE

NEXT ONLINE

FULL PRICE SALES BY DIVISION

The table below sets out the full price sales performance of our main Online divisions (NEXT Brand UK, LABEL UK and Overseas) in the first half and by quarter.

Full price sales £m	July 2021	July 2019	Var %	Q1 var %	Q2 var %	
NEXT Brand UK	685	469	+46%	*+63%*	*+29%*	*note 1*
LABEL UK	338	199	+70%	*+71%*	*+67%*	*note 2*
Total UK Online	***1,023***	***668***	**+53%**	***+65%***	***+41%***	
Overseas (nextdirect.com)	290	194	+49%	*+59%*	*+36%*	*note 3*
Overseas aggregators	54	18	+210%	*+152%*	*+271%*	*note 4*
Total Overseas	***344***	***212***	**+62%**	***+67%***	***+56%***	
Total Online full price sales	**1,367**	**880**	**+55%**	***+65%***	***+44%***	

There are four points of potential interest to note in the quarterly performance table on the right-hand side:

1. Online sales growth of **NEXT UK** branded products markedly retreated when our stores reopened, explaining the discrepancy in growth between Q1 and Q2.
2. **LABEL UK** sales did not appear to be affected much by the reopening of Retail stores, suggesting that there is not a great deal of high street competition for our LABEL UK business.
3. **Overseas**, we believe that much of the discrepancy between Q1 and Q2 is explained by the earlier timing of Eid, which brought sales forward from Q2 to Q1.
4. **Overseas aggregators**, such as Zalando (including Zalando Fulfilment Solutions), Otto and others, are an increasingly important channel of growth. Growth accelerated in Q2 as result of increasing stock levels.

CUSTOMER RECRUITMENT AND ANALYSIS

Credit, Cash and Overseas Customers

Customers can be divided into three distinct groups, each of which have very different characteristics:

- **UK Credit customers** who pay through a NEXT credit account[17] (nextpay or next3step).
- **UK Cash customers** who pay using credit, debit or other tender types.
- **Overseas customers** trading through our international websites.

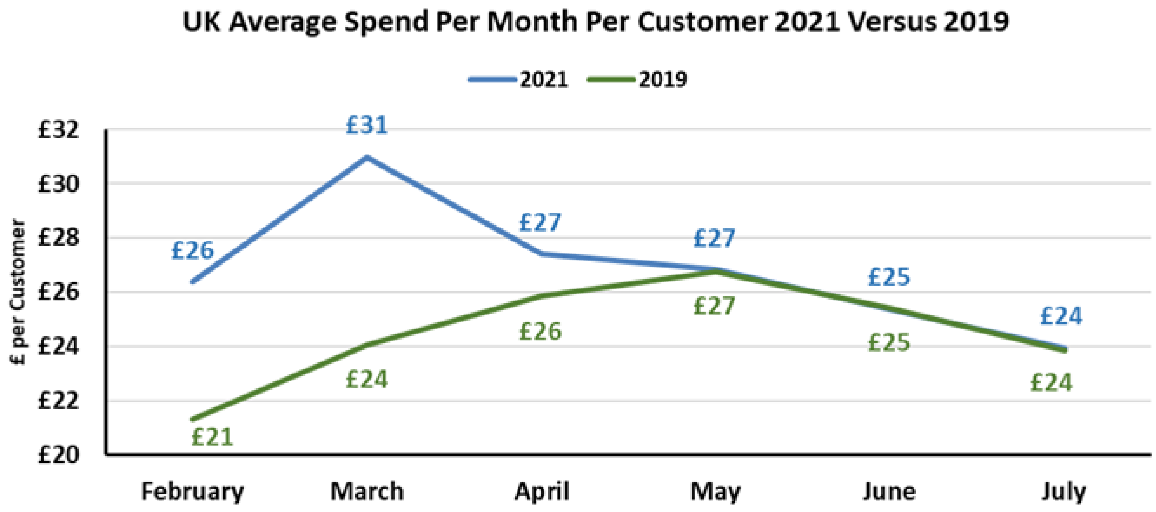
The table below explains how our customer base has developed over the last two years in terms of total customer numbers, sales per customer and total sales value. We do not have visibility of the customers trading through overseas aggregators, but have added sales through these sites to the table below for completeness.

	AVERAGE CUSTOMERS			SALES PER CUSTOMER			SALES VALUE		
First half	**2021**	**2019**	**%**	**2021**	**2019**	**%**	**2021**	**2019**	**%**
UK Credit	2.7m	2.6m	*+7%*	£256	£204	*+25%*	£701m	£525m	*+34%*
UK Cash	3.7m	2.0m	*+85%*	£88	£72	*+22%*	£322m	£143m	*+125%*
Overseas	1.9m	1.3m	*+45%*	£148	£145	*+3%*	£290m	£194m	*+49%*
Aggregators	-	-		-	-		£54m	£18m	*+210%*
TOTAL	**8.3m**	**5.9m**	***+42%***	**£157**	**£147**	***+7%***	**£1,367m**	**£880m**	***+55%***

Spend Per Customer

In the UK, growth has been driven by increasing numbers of active customers and a more than 20% increase in sales per Credit and Cash customer. We believe that the increase in spend per customer was driven by a combination of lockdown, which served to transfer spending from shops, and the effect of increasing the breadth of our offer.

The graph below shows the average spend per customer by month for H1 2021 and H1 2019. It can be seen that spend per customer decreased this year once lockdown was lifted and was in line with two years ago.



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

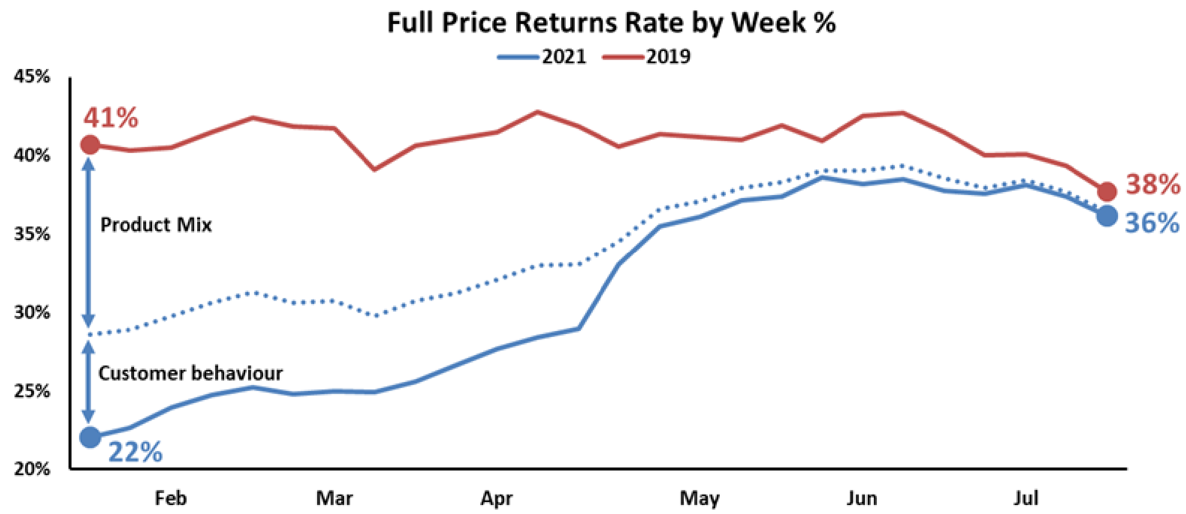
The Benefit of Low Return Rates

The first half benefitted from much lower returns rates (31% versus 41% two years ago). This meant that although full price sales were up +55%, the value of stock dispatched was up only +34%. This resulted in a saving of £20m from reduced handling costs. This change was due to two factors:

- The **mix of stock** being ordered. For example, more low-returning Home and Childrenswear and less high-returning formalwear and dresses.
- An underlying change in **customer behaviour**.

We calculate that around 70% of the fall resulted from the change in the mix of products sold, with the balance coming from a change in customer behaviour. As the pandemic recedes, our product mix and returns rates have returned to more normal levels. This is demonstrated in the chart below, which shows weekly returns rates versus two years ago.

The solid blue line shows the observed returns rate this year, the dotted blue line shows the returns rate we would have expected from the mix of products dispatched this year. The gap between these lines represents the change in consumer behaviour, and shows how this effect has diminished over time.



Online Deliveries and Returns via Retail Stores

During the pandemic more customers elected to have goods delivered to home, rather than stores. This trend has slowly reversed as life returns to normal, as shown in the table below. It remains to be seen whether this trend will continue if and when more people return to working in offices.

Percentage serviced by Retail stores	Pre-pandemic	March 2021	Sept 2021
Orders	49%	32%	36%
Returns	83%	56%	72%
TOTAL	**55%**	**34%**	**44%**

ONLINE PROFIT AND NET MARGIN

Profit and Net Margin by Division

Online division	Total sales £m	Profit £m	Margin %	Change in margin vs July 2019
NEXT Brand UK	780	205	26.3%	+6.0%
LABEL UK	373	62	16.6%	+2.1%
Overseas	352	50	14.1%	- 2.6%
Total Platform	18	1.3	7.4%	
Total Online	**1,522**	**318**	**20.9%**	**+2.7%**

The movements in margins in each division from 2019 are shown in the right-hand column and are explained as follows:

- **NEXT Brand UK** profitability improved due to savings made in catalogue production (+£19m), significantly lower returns rates (+£15m), and leverage over fixed costs.
- **LABEL UK** profitability also improved due to significantly lower returns rates (+£5m) and savings made in catalogue production (+£3m).
- **Overseas** margin has declined primarily due to COVID related distribution surcharges (-£11m).
- **Total Platform** launched during 2021. Net margin of 7% is in line with our profitability target of between 5% and 8%. For clarity, this profit excludes any equity related profit (see page 34).

Online Margin Analysis

Overall Online margin in the first half has improved from 18.2% to 20.9%. The margin impact of major cost categories is summarised below.

Net margin on total sales to July 2019 (IFRS 16 basis)		**18.2%**
Bought-in gross margin	Bought-in margin reduced for three reasons: (1) significant disruption in the shipping industry resulted in much higher freight costs (see page 22). This reduced margin by -0.4%. (2) a higher proportion of sales came from lower margin third-party LABEL brands, reducing margin by -0.7%. (3) the increased participation of NEXT Childrenswear and Home products reduced gross[18] margin by -0.3%.	**- 1.4%**
Lower surplus	Surplus stock was only up +12%, compared to full price sales growth of +55%. This improvement (though slightly lessened by marginally lower end-of-season Sale clearance rates) increased margin by +1.0%.	**+1.0%**
Warehousing & distribution	Margin improvement as a result of: (1) lower returns rates (+1.3%). (2) leverage over fixed costs (+0.1%). (3) COVID related freight surcharges for overseas parcels (-0.8%).	**+0.6%**
Catalogues and photography	We are no longer printing catalogues, which improved margin by +1.5%. Photography costs did not increase in line with sales, boosting margin by a further +0.4%.	**+1.9%**
IT	IT costs were up +30%, as we increased our investment in Technology teams and projects (see page 15). However, this increase was less than the increase in sales, increasing margin by +0.4%.	**+0.4%**
Central costs	Central costs, including our contact centre and head office departments, did not increase in line with sales, boosting margin by +0.2%.	**+0.2%**
Net margin on total sales to July 2021 (IFRS 16 basis)		**+20.9%**

Forecast for Online Sales and Profit for the Full Year

Full price Online sales in the first eight weeks of the second half were up +43% versus two years ago and are forecast to be up +32% for the rest of the year. This would result in full price sales being up +44% for the full year. Based on this forecast, we estimate that Online profit will be around £590m, with an operating margin of around 20% (versus 19.1% two years ago).

[18] NEXT Childrenswear and Home have lower bought-in gross margins than adult clothing, but as a result of lower returns rates they achieve comparable net margins.

LABEL

In the first half, LABEL full price sales were up +70% versus two years ago, adding £139m to the turnover of the Group. This section gives more detail on the shape of the business and how it is developing.

Analysis of LABEL Growth

Drivers of Growth

The following four developments have accelerated the growth of LABEL sales during the first half of the year:

- **Platform Plus** significantly broadened our offer. This technology enables us to sell stock located in our partners' warehouses which we collect and distribute to customers through our network (generally) within two days.
- The addition of third-party **Home product ranges.**
- The growth of our **Branded Beauty** offer.
- The development of **Licensed product** ranges in conjunction with partner brands.

Contribution to Growth by Product Category

The table below sets out the growth in full price sales by category.

Full price sales £m	July 2021	July 2019	Var %
Fashion: clothing, footwear and accessories	195	126	+54%
Sports	79	49	+61%
Home	45	17	+170%
Branded Beauty	19	7	+184%
Total full price sales	**338**	**199**	**+70%**

Contribution to Growth Made by New and Continuous Brands

We have added 320 new brands over the last two years and, in the last six months, new brands include Reiss, Laura Ashley, and Beauty brands including MAC, Bobbi Brown and Tom Ford.

The table below shows the contribution to the £139m *increase* in LABEL turnover made by new and continuous brands, broken down by product category. New brands, though important, are only contributing around a third of our growth, with the lion's share of growth coming from developing our offer from existing brands (particularly through Platform Plus).

Beauty stands out, with the addition of new brands making a huge difference. We expect to add more brands later this year and anticipate the Beauty business will turnover c.£55m in the year.

Full price sales growth vs July 2019 £m	New brands	Continuous brands	Total
Fashion: clothing, footwear and accessories	+ 29	+ 40	+ 69
Sports	+ 1	+ 29	+ 30
Home	+ 13	+ 15	+ 28
Branded Beauty	+ 8	+ 4	+ 12
LABEL full price sales growth	**+ 51**	**+ 88**	**+ 139**
Contribution to full price sales growth	*+26%*	*+44%*	*+70%*

Growth of Commission Versus Wholesale Brands

Over 60% of LABEL's full price sales were achieved through brands that operate on a commission basis. As summarised below, commission sales grew faster than wholesale brands. The commission model remains our preferred mode of operating and continues to offer partner brands the prospect of higher growth rates along with improved net margins.

Full price sales £m	**July 2021**	**July 2019**[19]	**Var %**
Commission	212	113	+88%
Wholesale	126	86	+47%
LABEL full price sales	**338**	**199**	**+70%**

The Increasing Importance of 'Platform Plus'

The advantages of Platform Plus are that it gives us access to a much broader assortment of stock whilst ensuring we can take ownership of customer service from the moment the goods leave a partner's warehouse. More recently we have developed Platform Plus to help optimise the items we have available in our own warehouse. The system now pre-emptively orders additional units of popular Platform Plus items, where we anticipate there is a high probability of another future sale.

Two Ways of Working

Our Platform Plus model allows customers to order items stocked in our partners' warehouses and are, generally, delivered through our distribution networks. Platform Plus functions in two ways:

- **Delivered by NEXT**: These items are collected from our partners' warehouses and delivered through our logistics network, so that they can be consolidated with other items in the same order and delivered, generally within two days of order.
- **Direct dispatch**: These are typically large Home items, not ordered with other items, which can be dispatched directly to the customer without the risk of de-consolidating an order.

We have refined our direct dispatch process to allow goods to be collected by NEXT's designated carriers (as opposed to being delivered through partners' carriers). This has two advantages. Firstly, it generally achieves a lower overall delivery cost. More importantly, it gives us much greater visibility and control of the delivery process and associated service.

A Dramatic Increase in Capability and Sales

Our Platform Plus technology is now live with almost 250 brands, and is expected to account for £116m (15%) of LABEL sales, compared with £25m (5%) two years ago. The tables below show how sales and the numbers of brands connected have increased since 2019/20.

	Jan 2022 (e) £m sales	**Jan 2020**[20] **£m sales**		**Jan 2022 (e) No. of brands**	**Jan 2020 No. of brands**	
Delivered by NEXT	75	11	*+593%*	140	44	*+218%*
Direct dispatch	41	14	*+203%*	105	69	*+52%*
Total	**116**	**25**	***+375%***	**245**	**113**	***+117%***

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[19] Please note that the table categorises sales according to whether a brand was trading as wholesale or commission in the six months to July 2021, therefore July 2019 figures are restated to give a like-for-like brand performance.

[20] Platform Plus sales and brands for Jan 2020 have been restated. Sales of some NEXT products that are Direct Dispatch are no longer being classified under Platform Plus because their sales are reported within NEXT UK, not LABEL UK.

THE DEVELOPMENT OF OUR LICENSING BUSINESS

We now manufacture stock under license with 12 partners. During the first half, we launched six new brands including Laura Ashley, Myleene Klass and Savannah Miller.

Areas of Focus

We are focusing on areas where our knowledge and experience of specialist factories, garment technologies and quality control requirements allow us to add value to our partners' design skills. These areas include childrenswear, swimwear, lingerie, nightwear, men's tailoring, footwear, furniture, and bedding. We are actively exploring other opportunities to add value through our supply base.

Performance and Outlook for the Current Year

In the current year we expect sales of licenced goods to be around £44m; the table below summarises anticipated full price sales by product division. The vast majority of these sales are expected Online, with around £3.5m expected in our Retail stores, mainly from Baker childrenswear and Laura Ashley departments. We are aiming for net operating margins on licensed products (after all costs) to be around 20%.

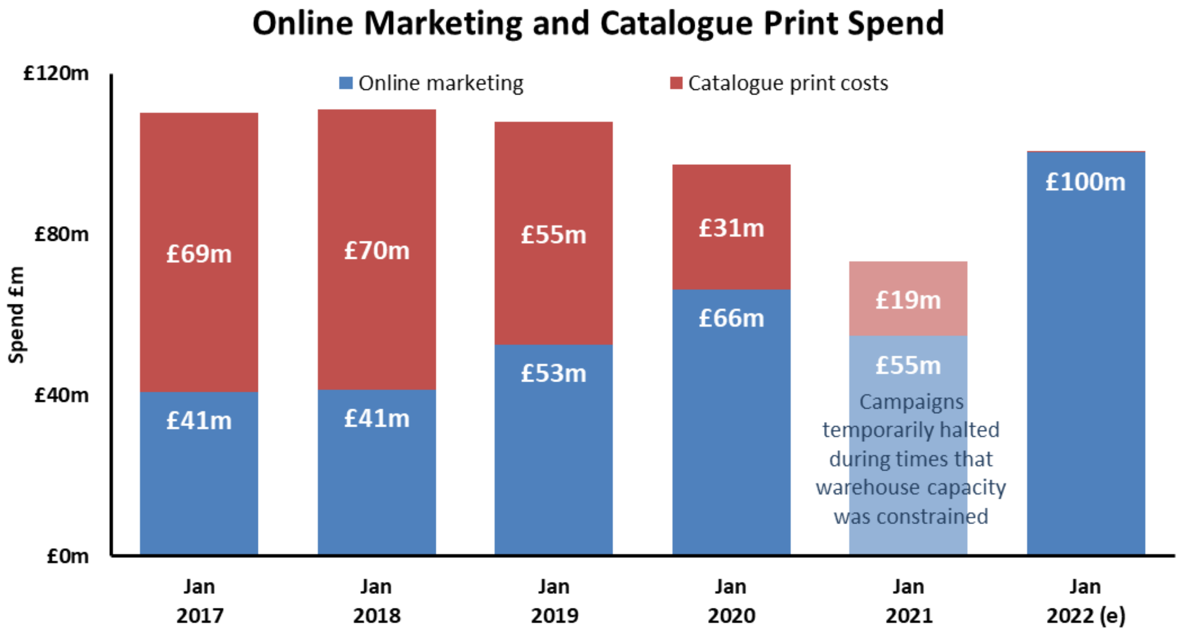
Full price sales £m	**Jan 2022 (e)**	**Jan 2020**
Childrenswear brands	21	-
Adult clothing brands	12	0.6
Home brands	11	0.3
Total full price sales	**44**	**0.9**

ONLINE MARKETING

The Changing Shape of Our Marketing Expenditure

Over the last six years there has been a dramatic change in the shape of our marketing expenditure, with resources shifting into increasingly powerful digital media and away from traditional printed catalogues.

The graph below shows the historic balance between the expenditure on Online marketing and printed catalogues. In February this year we printed our last NEXT DIRECTORY bringing to an end its thirty year history and reducing our ongoing print expenditure to zero.



Digital Marketing UK versus Overseas

In the current year we expect to spend 65% of our digital marketing in the UK, with the balance spent overseas.

FINANCIAL RETURNS AND APPRAISALS FOR DIGITAL MARKETING

High Hurdle for Investment

All our advertising campaigns are appraised and analysed to meet profitability hurdle rates. In simple terms we estimate the cash profit for every activity and, as a rule of thumb, expect digital advertising to deliver a cash profit of 50p (after accounting for the cost of the advert itself), for every £1 invested, within one year of the advert being placed.

In the last six months our marketing has outperformed our expectations, delivering on average, around £1 of net cash profit for every £1 invested. This overperformance has encouraged us to increase the budget during the year by more than £10m and test how much further we can push expenditure without compromising our hurdle rates.

Investment Appraisal Explained

Our investment appraisals calculate the sales we get from customers who have seen a particular campaign, if they are new customers, we will estimate future sales from those customers going forward. We then deduct the sales we estimate those customers would have made anyway to calculate 'incremental' sales. We then take the marginal profit on the incremental sales and compare it to the investment made in the campaign, calculating a simple 'return on first order' as a primary measure and, where appropriate, an IRR for the life of the investment.

The Challenges of Calculating Incremental Sales

Estimating incrementality is far from straightforward. We use a combination of control groups and other methods to make this approximation. Based on these tests, on average we assume only 10% of sales to existing customers and 30% of sales to new customers are incremental.

One of the complications of more accurately targeting those customers who are likely to respond to our campaigns, is that they are the ones most likely to have ordered anyway! In situations where incrementality is most certain - for example new customers overseas, we tend to accept a lower payback hurdle to reflect the greater certainty attached to incremental sales.

Partnership Advertising

This year we have trialled working with some of our third-party brand partners to co-fund digital marketing campaigns in external media, for the product they sell on our website. Because we both make a profit selling their stock, we can afford to fund marketing together that neither of us could justify spending alone. The trial has proven very successful, we will invest a total of £4m in collaboration marketing this year, and hope to significantly expand the program next year.

(For clarity, these adverts are not on the NEXT website and we do not charge partners for marketing on our site.)

TOTAL PLATFORM[21]

Total Platform offers client brands a complete suite of online services, providing website, warehousing, distribution and contact centre along with retail till systems and distribution network and a host of other services. The aim is to liberate brands from capital hungry, complex and time-consuming activities, in which they have little competitive advantage; allowing clients to focus on the areas where they add the most value - the design, buying and marketing of their brand.

Total Platform Sales & Profit Guidance

This year we expect to fulfil Online sales of around £50m through Total Platform, generating £3m of profit at a net operating margin of 6%. The margin achieved in year one is within our target range of between 5% and 8%. In addition, we have taken equity stakes in four of our clients (see table below) and expect a profit contribution from this equity of around £7m.

Accounting for Profit from our Investments in Total Platform Clients

We intend to report profits generated from our Total Platform equity investments in NEXT's Group accounts within Other Business and Interest. This year's forecast profit of £7m comprises:

- £5m from NEXT's JV with Victoria's Secret, which will be reported within Other Business (see page 43).
- £2m from NEXT's investment in Reiss. This currently relates to interest earned on preference shares and is reported in the Group's interest line. Reiss trading profits are in 'Other Business'.

Summary of Total Platform Clients, Launch Dates and Equity Interests

Client	Launch Date		Equity Interest
Childsplay Clothing	Oct	2020	
Laura Ashley	Mar	2021	
Victoria's Secret UK and Eire	May	2021	51% share in UK JV with Victoria's Secret & Co.
Aubin	Sep	2021	33% share
Reiss	Spring	2022	25% with an option to buy a further 26%
Gap UK and Eire	Summer	2022	51% share in a new UK JV with Gap Inc.

New Clients Announced in the Last Six Months

Aubin

Aubin is a luxury menswear brand that launched in September 2021.

Gap (UK and Eire)

Gap Inc. is the largest American specialty apparel company offering clothing, accessories, and personal care products for men, women, and children; under the Old Navy, Gap, Banana Republic, and Athleta brands. We have set up a joint venture with Gap Inc. to sell Gap brand products in the UK and Eire as a franchise partner. The JV will operate Gap's ecommerce through:

- Total Platform, on a dedicated 'light' site, to be hosted on a gap.next.co.uk website
- LABEL, on the next.co.uk website

Under the terms of the agreement, NEXT owns 51% of the JV and Gap Inc. owns 49%.

[21] For a more complete view of our Total Platform business please see our January 2021 Annual Report, page 52.

NEXT FINANCE

FINANCE PROFIT AND LOSS ACCOUNT

In the first half, net profit fell by -13% to £66m. This reduction was mainly driven by an -11% reduction in interest income which, in turn, was driven by a -13% reduction in the average customer receivables balance.

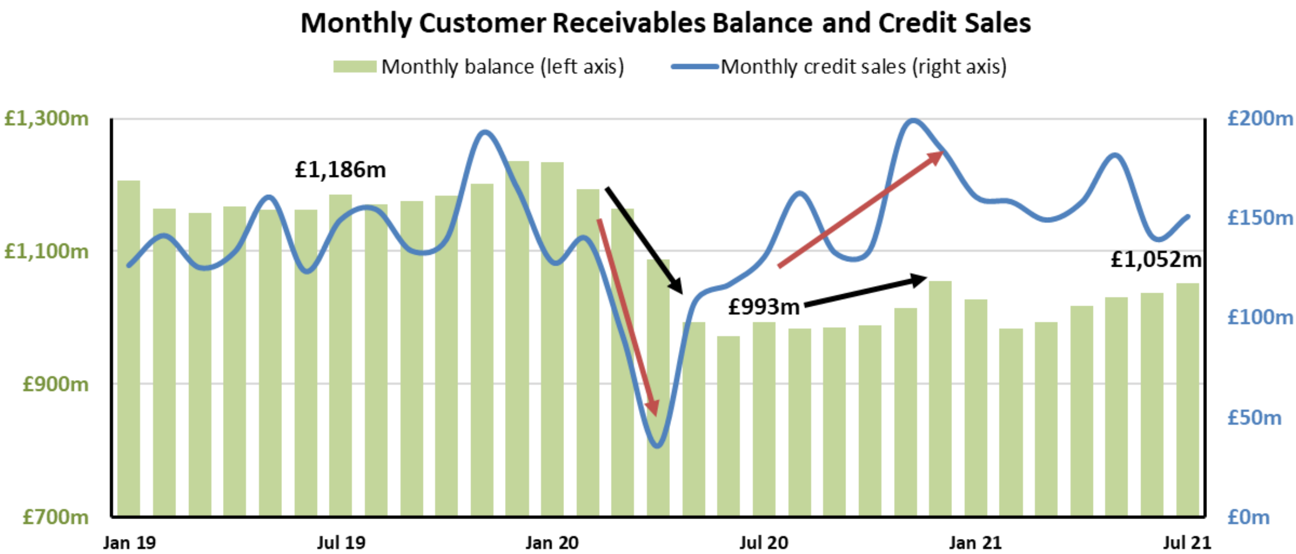
£m	July 2021	July 2019	Var %
Note of credit sales	*939*	*833*	*+13%*
Average customer receivables	*1,020*	*1,167*	*- 13%*
Interest income	119	134	- 11%
Bad debt charge	(17)	(19)	- 12%
Overheads	(21)	(21)	- 1%
Profit before cost of funding	**81**	**94**	**- 13%**
Cost of funding	(16)	(18)	- 12%
Net profit[22]	**66**	**76**	**- 13%**
ROCE (after cost of funding)	12.9%	13.0%	
Closing customer receivables	1,052	1,186	- 11%

Lower Balances Explained

The average customer receivables balance was lower than in 2019/20, as a result of two factors:

- **Credit sales** fell at the start of the pandemic *last year*, following an initial fall in customer demand and the two week temporary closure of our warehouses in Q1 2020.
- As the pandemic progressed, consumers **paid their accounts down faster** than usual, a trend consistent with reduced indebtedness in the wider UK economy.

Both these effects are clearly seen in the graph below. (1) In the first quarter of 2020, the sharp decline in credit sales pulled down average balances. (2) From August 2020, credit sales recovered sharply but balances did not increase at a commensurate rate, because increased payment rates partially offset the effect of the growth in sales. In the six months to July 2021, payment rates[23] averaged 15.1%, compared with 12.5% two years ago.

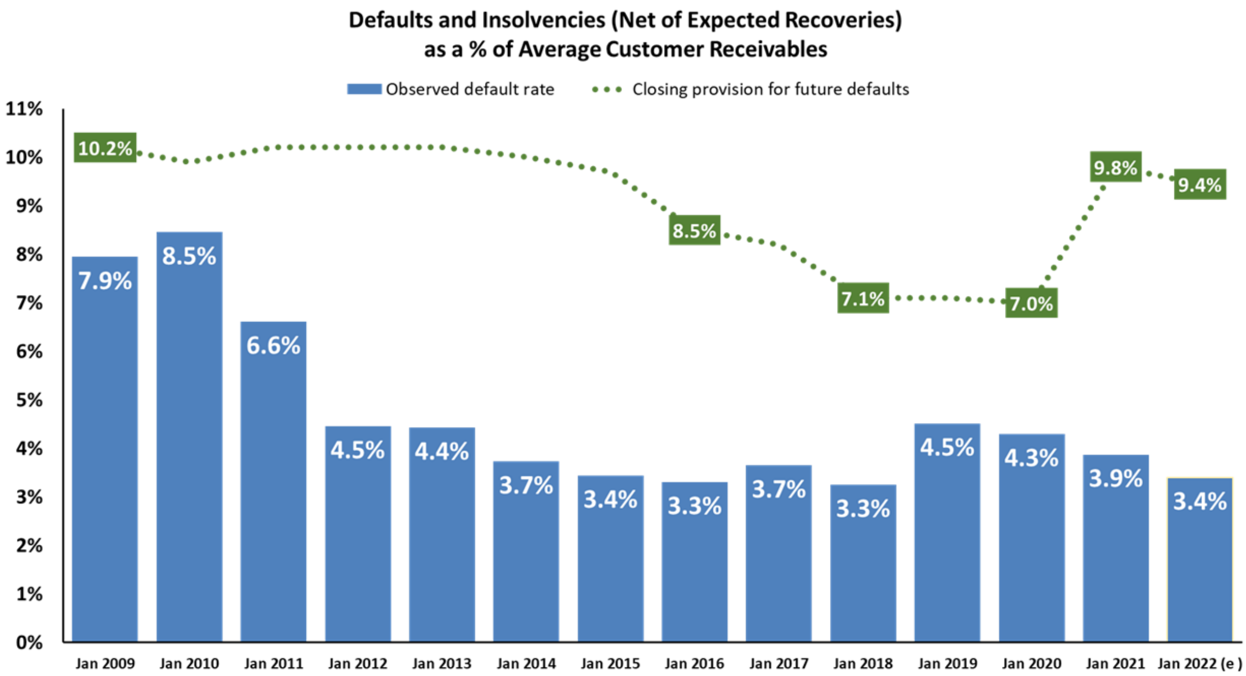


[22] Net profit in July 2021 was £66m. Rounding differences are not adjusted in the table.
[23] The payment rate is the average percentage of consumer balances that are paid each month.

BAD DEBT AND DEFAULT RATES

The bad debt charge in the first half was down -12% and broadly in line with the fall in average customer receivables. Defaults have remained low and we have not yet seen evidence of increasing bad debt. We are maintaining the £20m provision for future losses that we charged last year, as we believe that we have yet to see the full impact of (1) Government support schemes such as furlough being removed and (2) the effect of increasing inflation on customers' finances.

The chart below shows (1) our observed rate of default as a percentage of customer receivables since 2009 (blue bars) and (2) the closing rate of provision for future defaults (green dotted line). We expect this rate to be 9.4% at the end of this year, which is +2.4% higher than the pre-COVID rate of 7.0%. This increase is mainly due to the additional £20m provision charged to the P&L account last year.



COST OF FUNDING

The cost of funding is an internal recharge from the Group. In the first half, this charge reduced by -12% to £16m, mainly due to the reduction in average customer receivables.

Calculating the Cost of Funding and Group Interest Rate

The cost of funding charge is based on the assumption that 85% of customer receivables are funded by debt from the Group, at an annual internal interest rate of 3.6%, which is in line with the interest rate charged on the Group's external debt. This interest rate calculation is set out below. The Group interest charge is adjusted to remove the impact of other investments.

Group interest % calculation	July 2021	July 2019	Var %
Bond	£1,125m	£983m	
Revolving credit facility	£0m	£162m	
Average Group debt	**£1,125m**	**£1,145m**	**- 2%**
Group net external interest charge	£19m	£21m	
Add back income from investments	£2m	-	
Underlying cost of Group debt	**£21m**	**£21m**	**- 1%**
Group annual interest rate %	**3.6%**	**3.6%**	

A Revised Approach to Calculating the Cost of Funding

Our previous approach to calculating the cost of funding charge for the NEXT Finance business was set out in our January 2021 Annual Report (page 41). Since then, we have made two changes to the method:

1. Cash on deposit has been removed from the average Group debt calculation and interest earned on this cash has been removed from the Group interest charge.
2. Interest income from other investments, e.g. in Reiss, has been excluded to provide the underlying cost of interest paid on debt instruments.

Applying the new method does not impact the internal charge for the half year to July 2019 or the full year to January 2020.

OUTLOOK FOR PROFIT AND RECEIVABLES FOR THE FULL YEAR

In the full year to January 2022, NEXT Finance is expected to generate **£135m** of profit, which would be down -8% on the year to January 2020 (pre-COVID).

We are forecasting the customer receivable balance to end the year at **£1,145m**, which would be down -7% on two years ago.

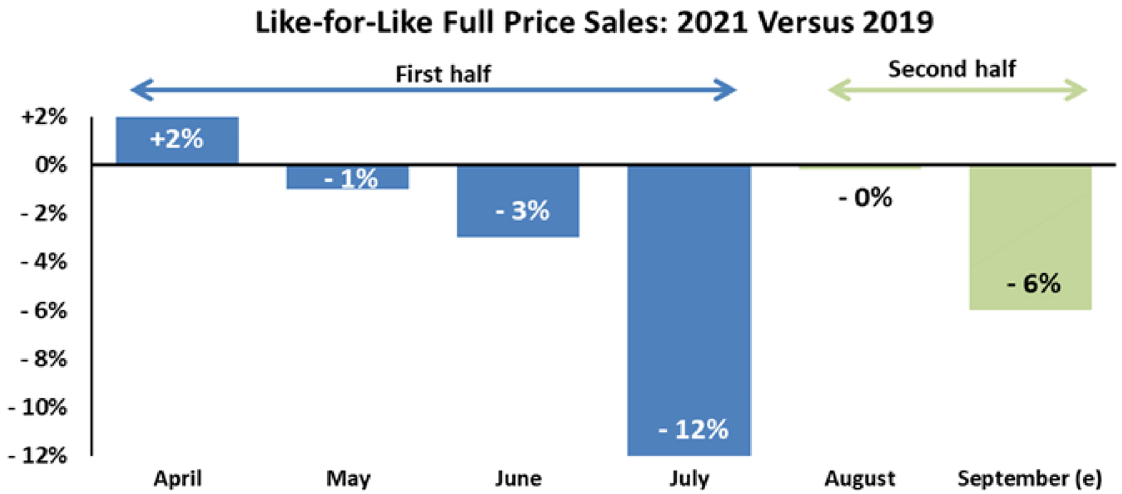
NEXT RETAIL

FULL PRICE SALES

Total full price sales in the first half were down -40% versus two years ago. On a like-for-like basis, comparing sales only on the days that stores were trading outside of lockdown, full price sales were down -4% versus two years ago.

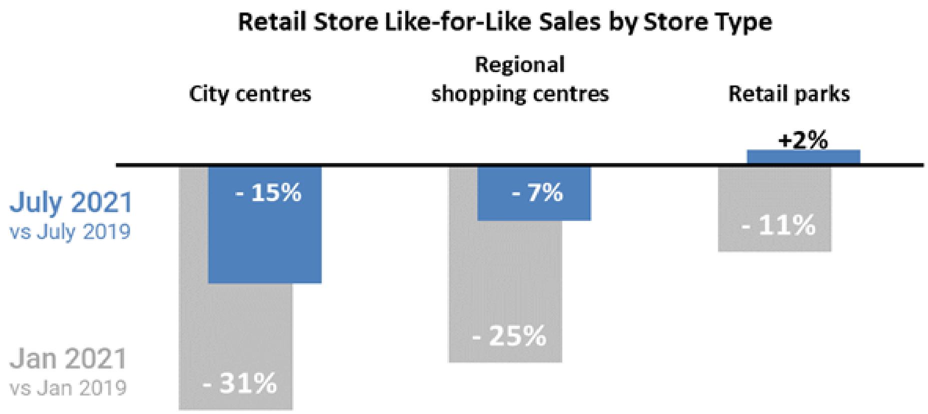
Like-for-Like Full Price Sales Performance by Month

When stores reopened in April, strong pent-up demand was evident and full price sales were up +2%. After the initial bounce back, sales gradually reduced in the three months that followed. The second half has started strongly, boosted, we believe, by fewer overseas holidays and a surge in events such as weddings. We are expecting like-for-like sales growth for the rest of the year to be more in line with the -12% experienced in July.



Store Performance by Location

Stores in out-of-town **retail parks** continue to perform better than stores in city centres and shopping centres. We first reported this trend last year and, though it has continued into the current year, the variance in performance is slowly narrowing.



It was very fortunate for NEXT that, going into the pandemic in 2020, more than half our Retail sales (62%) came from retail parks. For reference, 27% came from city centres and the remaining 11% from regional shopping centres.

RETAIL PROFIT & LOSS

Headline Numbers and the Effects of IFRS 16

Total sales (including the ten weeks of closure) were down **-38%**, resulting in a reported loss in the first half of -£18m. This reported loss is reduced as a result of the requirements of IFRS 16 accounting standards, because it does not include an interest charge for notional "lease debt" (see note below). Accounting for this lease interest charge would result in a Retail loss in the first half of **-£39m**.

For the full year, assuming no further lockdowns, we are expecting Retail to contribute +**£60m** of profit to the Group.

NOTE ON THE EFFECT OF IFRS 16 TO STATED RETAIL PROFITS

Under IFRS 16, the cost of rent charged to the Retail business has materially reduced compared with the rent actually incurred (and the cost recognised under IAS 17).

This is because IFRS 16 results in two accounting notions: (1) leased stores are recognised as notional assets which generate a notional depreciation charge, and (2) that the lease commitment on those assets represents notional debt, which creates a notional interest charge.

So in our accounts, rental costs are replaced with two components: (1) depreciation on right-of-use assets (hereinafter referred to as 'Rent Depreciation', which is charged to the Retail P&L account, and (2) a lease interest charge which is reported within the Group's interest costs (outside the Retail's P&L) (see page 44). This has the effect of flattering the Retail P&L by £21m, reducing a loss of £39m to a loss of £18m. Interestingly, it is (another) reason why it will be a mistake to value retail companies on the basis of their EBITDA.

In this section, and going forward, we will (1) report the Retail profit as per IFRS 16 and (2) add back the lease interest charge to reflect the underlying finances of the Retail P&L. Including the lease interest charge, the loss in Retail would increase to -£39m as shown below.

Half Year Sales and Profits

£m	July 2021	July 2019	Var £m	Var %
Total sales	540	874	(334)	- 38%
Operating profit/(loss) post-IFRS 16	(18)	91	(109)	- 120%
Lease interest charge[24]	*(21)*	*(30)*	*9*	*- 27%*
Retail profit/(loss) including lease interest	*(39)*	*61*	*(100)*	*- 164%*

[24] Lease interest is reported within the Interest line of the consolidated P&L. £21m is the proportion of lease interest that is attributable to the Retail business.

First Half Profit Walk Forward

The following table sets out the sales and major heads of cost for this year and two years ago, along with the cash and percentage variance.

£m	July 2021	July 2019	Var £m	Var %
Total sales	**540**	**874**	**(334)**	**- 38%**
Achieved margin	312	518	(206)	- 40%
Occupancy costs	(152)	(204)	52	- 25%
Rent depreciation & service charge	*(61)*	*(70)*	*9*	*- 12%*
Maintenance, utilities and consumables	*(30)*	*(41)*	*11*	*- 27%*
Depreciation	*(35)*	*(43)*	*8*	*- 20%*
Business rates	*(26)*	*(50)*	*24*	*- 47%*
Store payroll	(77)	(103)	26	- 26%
Warehouse & distribution	(45)	(55)	10	- 18%
Central costs	(56)	(65)	9	- 13%
Retail profit/(loss) post-IFRS 16	**(18)**	**91**	**(109)**	**- 120%**
Notional lease interest	*(21)*	*(30)*	*9*	- 30%
Retail profit/(loss) including lease interest	***(39)***	***61***	***(100)***	***- 164%***

Achieved Margin

Achieved margin reduced for two reasons. (1) Our surplus stock reduced in value, but much less than the decline in sales, mainly because we were unable to cancel all of the stock ordered for the ten weeks of lockdown closure. (2) The price of freight rose in the season and we chose not to recover all this increase through raising prices, resulting in a £2m reduction in margin.

Rent Depreciation and Service Charge

Costs reduced by £9m, mainly from rent reductions that were achieved when leases were renegotiated during the last two years.

Maintenance, Utilities and Consumables

Costs were £11m lower than two years ago, mainly due to lower electricity usage, maintenance, credit card commission and other consumable costs (bags etc.) saved during the weeks of lockdown closure.

Business Rates

The £24m reduction in business rates comprises: (1) £20m of Government rates relief, relating to the weeks that our stores were closed due to lockdown and (2) a £4m saving from stores that have closed in the last two years.

Store Payroll

In the period the stores were open, operational restrictions imposed by COVID safety measures reduced productivity. This, along with inflationary wage increases meant that costs did not fall in line with sales.

During lockdown at the start of the year, almost all Retail store staff and support teams were furloughed. Costs incurred in Retail stores providing Online click & collect services during lockdowns were recharged to the Online business.

Warehouse, Distribution and Central Costs

Fixed warehouse, distribution and central costs meant that all these heads of costs rose as a percentage of sales.

A NOTE ON BUSINESS RATES RELIEF
The total value of business rates relief available to us for this financial year (February 2021 to January 2022) is £48m. As reported in our July Trading Statement, we intend to repay any business rates relief we have received, or will receive, while our stores are open this year. Assuming that our stores remain open for the remainder of the financial year, we anticipate making a repayment of £29m. The repayment is reflected in our profit and cash flow guidance for the year.

Forecast For Retail Sales and Profit for The Full Year

In the first eight weeks of the second half, full price sales were down -4% versus two years ago, and we are forecasting them to be down -12% for the rest of the year. This would result in full price sales for the *full year* being down -25%.

Based on this sales forecast, we anticipate that Retail will make a profit, *including notional lease interest*, of **+£60m** versus +£178m in 2019/20. (Note: the IFRS 16 Retail profit would remove £40m of lease interest costs, giving a reported profit of £100m.)

LEASE RENEWALS AND COMMITMENTS

Forecast for Lease Renewals in the Year Ending January 2022

The table below shows the store leases we have renewed, or expect to renew, in the current financial year along with the anticipated rent[25] savings and average lease term.

New lease category	No. of leases	Rent before renewal	Rent after renewal	
Fixed rent charge	42	£13.1m	£8.6m	- 34%
Zero rent	3	£0.6m	£0.0m	- 103%
Rent linked to store turnover	28	£8.4m	£2.0m	- 76%
Total	**73**	**£22.1m**	**£10.6m**	**- 52%**
Annual rent saving			**£11.5m**	
Rent-free incentive/capital contributions			£3.0m	
Average lease term (to earlier of break or lease end)			3.0 years	

As shown, 28 of the leases we expect to agree this year will be linked to store turnover. We anticipate that 15 of these more flexible leases will be 'total occupancy cost' (TOC) deals. These TOC deals allow tenants to pay a fixed percentage of turnover to cover rent, business rates and service charges. The figures shown above recognise the entire saving from TOC deals as a rent saving.

We continue to invest in stores where we have renewed the lease and we plan to spend around £7m upgrading the portfolio stores renewed in the current year.

Outstanding Lease Commitments

At the end of July 2021, our average lease commitment (weighted by value) was 5.0 years, compared with 5.5 years at the same time last year. Fifty per cent of our store leases (by value) will expire or break within 4.2 years and 87% within the next ten years.

[25] Note that the savings given here are the actual rent payable rather than IFRS 16 rent depreciation.

RETAIL SPACE FORECAST TO JANUARY 2022

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

	Store numbers	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
January 2021	**491**	**8,059**	**377**	**8,436**
New Mainline stores[26]	-	+26	+37	+63
Mainline closures	- 13	- 107	- 1	- 108
Clearance stores	+8	+71	-	+71
January 2022 (e)	**486**	**8,049**	**413**	**8,462**
Change	- 5	- 10	+36	+26
Change %		- 0.1%	+9.4%	+0.3%

New Mainline Stores

In the first half, we opened six stores, which were all re-sites from existing locations. They have performed well and, based on our latest forecast, we expect the stores to make a net profit (before central overheads) of 20%. We anticipate that payback on capital invested will be within 18 months, which is within our investment criteria hurdle of 24 months.

Mainline Closures

We expect to close 13 mainline stores this year, only three of which came as a result of being unable to agree acceptable new terms with landlords. The three stores we were unable to agree terms should be seen in the context of the 73 stores we are likely to renew.

The other ten closures were in locations where we forecast that the store would not achieve our target margin on almost any terms. These stores often have an alternative NEXT store nearby that would be likely to win back some of the sales lost from closure.

The table below sets out the profitability and turnover of stores falling into each category of closure.

Reason for store closure	No. of stores	Store turnover	Store profit	Store profit %
Location not viable	10	£11.2m	£0.4m	4%
Failure to agree acceptable terms	3	£4.6m	£0.7m	16%
Total closed stores	**13**	**£15.8m**	**£1.1m**	**7%**

Clearance Stores

This year we will open eight new Clearance stores, with an average lease term (to the earlier of break or lease end) of three years. The rent cost in these stores is based on store turnover, with six of the eight leases being TOC deals (see above). The introduction of new Clearance stores means that we can sell more of our surplus stock in Retail, alleviating some of the capacity pressures in our central Online warehouses.

[26] In the year, we expect to add 63k (net) square feet to our Mainline stores, but the number of stores will not change. We are opening in one new location and re-siting stores in another eight locations. Within the eight resites, there is one location where we are consolidating two stores into one, reducing our number of stores by -1.

PART FIVE

OTHER GROUP ACTIVITY, CASH FLOW AND NET DEBT

OTHER BUSINESS ACTIVITIES

The profits and losses in the first half from other business activities, including our other Group trading companies and non-trading activities, are summarised below along with estimates for the full year. A brief summary is given below the table explaining significant changes in profit.

£m	July 2021	July 2019	Jan 2022 (e)	Jan 2020
NEXT Sourcing (NS)	14.3	17.0	31.3	32.2
Lipsy	8.2	5.5	16.5	13.0
Victoria's Secret joint venture	0.4	-	4.9	-
Franchise and Retail International	2.2	3.2	5.3	6.4
Property management	7.0	(0.1)	6.1	(2.2)
Central costs and other	(21.1)	(11.7)	(39.3)	(23.4)
Total profit	**11.0**	**13.9**	**24.8**	**26.0**

NEXT Sourcing (NS)

The reduction in NS profit in the first half is mainly due to the timing of product shipments from overseas territories, with more shipments falling into August this year than two years ago. Profit for the full year is expected to be £31m, broadly in line with two years ago.

Lipsy

The increase in profit in the first half was driven by the expansion of our Branded Beauty business (see page 29) and an improvement in clothing sales. For the full year, we expect profit to be £16.5m, which would be up +27% versus two years ago.

Victoria's Secret Joint Venture

This is the profit from our 51% stake in the Victoria's Secret UK and Eire JV. Retail stores remained closed until mid-April due to lockdown, resulting in very little sales activity in the first quarter. The UK website, operating on NEXT's Total Platform, launched during May. Overall, there was a small profit of £0.4m in the first half. For the full year we are forecasting a profit of around £5m.

Property Management

First half profit of £7m was mainly due to £6m of profit from the warehouse sale and leaseback transaction completed in 2020. This was the second of three instalments and was payable upon NEXT maintaining its investment grade credit rating. The third and final instalment of £6m, with the same investment grade condition, is payable in 2022/23.

Central Costs

Central costs in the first half were £9m higher than July 2019, mainly due to: (1) higher cost of employee share schemes and (2) higher service costs on the defined benefit pension scheme resulting from a change in actuarial assumptions.

INTEREST, TAX, PENSIONS AND ESG

INTEREST

The interest charge in the P&L is made up of three categories as set out below.

£m	July 2021	July 2019	Jan 2022 (e)	Jan 2020
Net external interest	(19.6)	(21.3)	(35.0)	(43.6)
Reiss preference share income	1.1	-	2.4	-
Lease interest	(27.3)	(32.1)	(52.2)	(61.8)
Total interest	**(45.8)**	**(53.4)**	**(84.8)**	**(105.4)**

For the full year we are forecasting a net external interest charge of £35m, which would be down £9m (-20%) versus two years ago. This reduction flows from an expected decline in average net debt, along with lower average interest charges which result from the repayment of the £325m bond, falling due in October 2021 (see page 47).

Reiss preference shares were acquired as part of our investment. The shares accrue interest at a rate of 8% per annum, giving a £1.1m benefit in the first half and £2.4m in the year.

The reduction in (notional) lease interest is consistent with the overall reduction in (notional) lease debt, from £1.33bn to £1.13bn, as we pay rent and renew leases on shorter terms and lower or variable rents. It is an interesting quirk of IFRS 16 lease accounting that leases on fully variable rents are *not* treated as notional debt, so the shift from a fixed to fully variable rents will accelerate the reduction in notional lease debt.

TAX

Our effective tax rate (ETR) for the first half was 16.5%. For the full year we expect our ETR to be around 17.5%. These rates are lower than the UK headline rate of 19% for three reasons, as set out below:

	6 months to July 2021	Year to Jan 2022 (e)
Headline UK Corporation Tax rate	19.0%	19.0%
Remeasurement of deferred tax asset to 25%[27]	- 1.2%	- 0.6%
Super deduction for capital allowances (130% deduction for qualifying expenditure)	- 0.9%	- 0.7%
Prior year adjustments and other	- 0.4%	- 0.2%
ETR	**16.5%**	**17.5%**

PENSION SCHEME

On the IFRS accounting basis, the valuation of our defined benefit scheme's **surplus** has increased from £99m as at January 2021 to £133m as at July 2021. Further detail is provided in Note 11 of the financial statements.

[27] The remeasurement of the deferred tax asset occurred during the first half of the year. 25% is the new headline UK Corporation Tax rate effective from April 2023.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Our extensive work in recent years has provided us with solid foundations on which to build our approach to ESG matters. We continue to refine our commitments and during the first half we have focused particularly on climate change and responsible sourcing.

Carbon Emission Reductions

The targets we set for the reduction in our scope 1, 2 and 3 greenhouse gas emissions (i.e. those created directly by our operations and indirectly through our wider business activities) have been approved by the Science-Based Emission Target initiative (SBTi). Our scope 1 and 2 target ambitions are consistent with the reductions required to keep global warming to +1.5°C, in line with the Paris Agreement.

By 2030 we aim to:

- Reduce our direct and indirect (from NEXT energy consumption) emissions by 55% against a 2016/17 baseline (Scope 1 & 2)
- Reduce our other indirect emissions from NEXT's operations by 40% against a 2019/20 baseline per £1m sales (Scope 3).

Responsible Sourcing

We are aiming to source 100% of the main raw materials we use through known, responsible or certified routes by 2025. We are also making it easier for customers to identify sustainably sourced items; products containing at least 50% of responsibly sourced materials which have been certified and verified to a recognised standard can carry a NEXT Generation label.

During the first half we launched a small trial range called Mr Blue Sky, a menswear range focused on sustainability and made using 100% responsibly-sourced materials. We will monitor the performance of the range to get a better understanding of customer response.

CASH FLOW, DIVIDENDS, NET DEBT & FINANCING

CASH FLOW[28]

Based on our new profit guidance for the full year, we expect to generate £348m of surplus cash after interest, tax, capital expenditure and investments, but *before* distributions to shareholders and the repayment of the 2021 bond (see page 47).

We expect the NEXT Finance customer receivables balance to grow by £116m, partly reversing last year's £206m reduction experienced during the pandemic (see page 35).

£m	Jan 2022 (e)	Jan 2021	Jan 2020
Profit before tax	**800**	342	**749**
Depreciation/impairment on plant, property and equipment	105	145	125
Capital expenditure (see page 48)	(185)	(163)	(139)
Tax paid	(126)	(113)	(138)
Employee Share Option Trust (ESOT)	(75)	(26)	(27)
2020/21 sale and leaseback proceeds (net of gain)	-	110	-
Working capital/other	16	20	(45)
Surplus cash from trading activities	**535**	315	**525**
Customer receivables	(116)	206	(27)
Investments			
Investment in Reiss (£33m equity and £10m loan)	(43)	-	-
Property stock (net cash outflow on Elmsall 3 build costs)	(28)	-	-
Surplus cash before distribution to shareholders	**348**	521	**498**
Share buybacks	-	(19)	(300)
Special dividend paid in September 2021	(140)		
Special dividends or investments	(208)	-	(214)
Cash flow after distribution to shareholders	**-**	502	**(16)**
Bond repayment	(325)	-	-
Cash flow after bond repayment	**(325)**	502	**(16)**

[28] The cash flow now reflects the impact of IFRS 16. Depreciation on right-of-use assets and lease payments are included in working capital. The change is presentational only, it has no impact on the actual cash generated by the business.

DIVIDENDS

Last year we did not pay any dividends in order to help secure the finances of the business during the pandemic. In the light of this year's anticipated cash flow and the strength of our balance sheet, the Board declared a special dividend in July of 110p per share, which was paid on 3 September 2021.

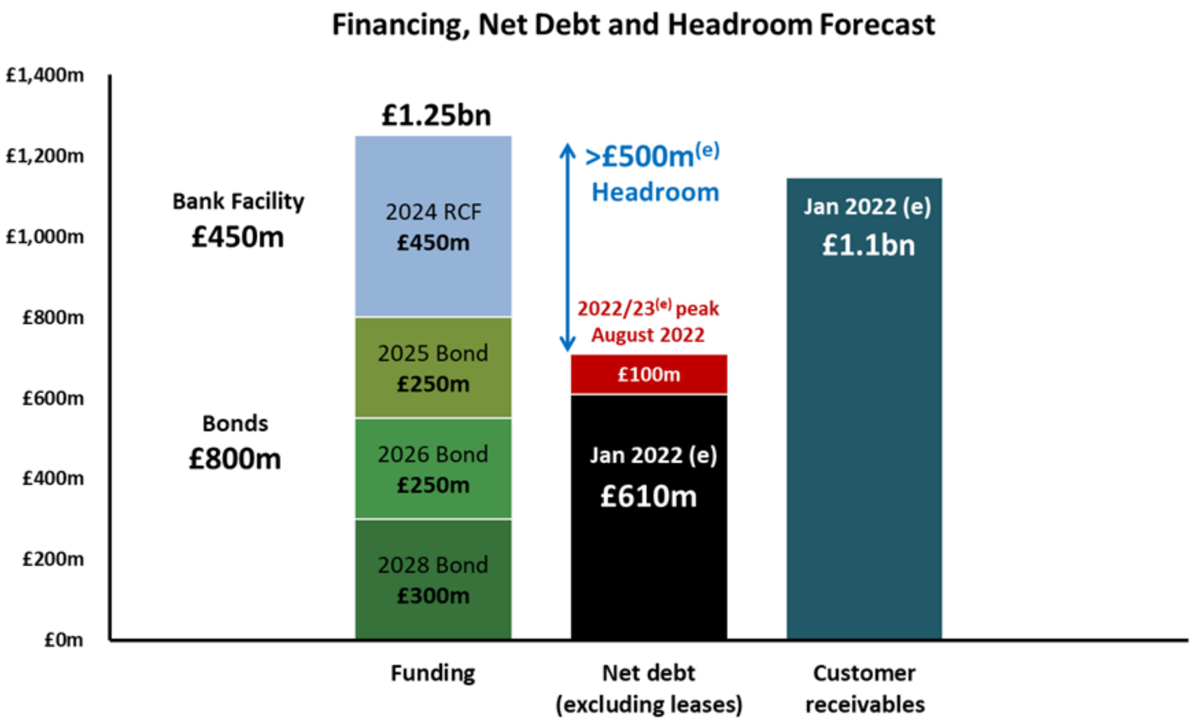
The Company remains committed to its long term policy of returning surplus cash, that cannot be profitably invested in the business, to shareholders. It is our intention to distribute any remaining surplus cash generated this year as a second special dividend at the end of January 2022. Any further dividends will be announced in our Christmas Trading Statement on Thursday 6 January 2022. We currently plan to return to ordinary dividends in the year to January 2023.

NET DEBT, BOND AND BANK FACILITIES

Our current bond and bank facilities total £1,575m. This includes a £325m bond which matures in October 2021. We intend to repay this bond from surplus cash generated last year (Jan 2021, £502m, see page 46) and do not intend to issue a new bond to replace it. Following the repayment of the bond, our total bond and bank facilities as at January 2022 would reduce to £1,250m.

Based on our profit and cash flow guidance, our year end net debt (excluding lease liabilities) is forecast at £610m. This would be comfortably within our bond and bank facilities of £1,250m, with headroom of £640m at the end of this financial year.

The bar chart below sets out our bond and bank facilities following the repayment of our £325m bond in October 2021. For context, our year end forecast for customer receivables is also shown. At £1.1bn, this asset is almost double the value of our net debt.



CAPITAL EXPENDITURE

SPEND BY CATEGORY

The table below sets out our forecast capital expenditure for the year ahead compared to the previous two years and demonstrates the dramatic (+50%) increase in investment in warehousing and IT.

£m	Jan 2022 (e)	Jan 2021	Jan 2020
Warehouse	114	100	87
IT and other	38	26	14
Total warehouse, IT and other	**152**	**126**	**101**
Retail space expansion	15	29	24
Retail cosmetic/maintenance capex	18	8	14
Total Retail expenditure	**33**	**37**	**38**
TOTAL CAPITAL EXPENDITURE	**185**	**163**	**139**

Warehousing

The increase in warehouse capex is mainly driven by the continuing investment in our new, highly automated, boxed warehouse (Elmsall 3) which is planned to open towards the end of 2023. It will deliver an estimated increase in boxed capacity of 45%, with marginal labour cost per unit around 40% lower than the equivalent cost today.

IT and Other

This year we expect to increase capital expenditure on technology to £36m, of which £27m is software and £9m is hardware.

Retail Stores

Our forecast for capital expenditure on Retail space expansion has reduced to £15m, from £29m in the prior year, as a result of fewer new store openings. Cosmetic and maintenance spend of £18m is £4m higher than two years ago and includes some catch up expenditure from the work we deferred last year, at the height of the pandemic.

THIRD QUARTER TRADING UPDATE

Our third quarter Trading Statement will cover the thirteen weeks to 30 October 2021 and is scheduled for Wednesday 3 November 2021.

Lord Wolfson of Aspley Guise
Chief Executive
29 September 2021

APPENDIX

SECTION 1 - STATUTORY SALES AND IFRS 16 LEASES

STATUTORY BASIS £m and EPS	July 2021	July 2020	July 2019
Sales	2,119.5	1,332.7	2,014.5
Profit before taxation	346.7	(16.5)	327.4
Earnings Per Share (basic)	226.8p	(9.0)p	204.4p
Net debt (including leases)	(1,549.1)	(2,077.3)	(2,524.1)

OVERVIEW

The financial information presented in pages 3 to 48 is used by management in assessing business performance. It is also the financial information used to inform business decisions and investment appraisals.

Some of these financial metrics and performance measures are not prepared on a full IFRS statutory accounting basis. It is common for the use of performance measures that are not based on the statutory IFRS values to be called "Alternative Performance Measures" (APMs).

A glossary of APMs used by the business is provided in the January 2021 Annual Report.

Differences between APMs and Statutory Results

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

In previous years we have also reported our Group profit and EPS on a pre-IFRS 16 basis. This year we have fully embedded IFRS 16 into our reported results so that they align with their statutory equivalents.

Offset Sales

The financial year ended 30 January 2021 was a 53 week period. This means that this year started one calendar week *later* than the previous two financial years. Throughout this document, unless otherwise stated, the results presented are not adjusted for this "offset" week and we show the results for the 26 weeks ended 31 July 2021, 25 July 2020 and 27 July 2019. This is to ensure consistency with the results previously presented for each period.

When presenting sales analysis by week, month or quarter, we believe it is more helpful for the reader to view information on a like-for-like calendar week basis. For these charts and tables we have adjusted the comparative data used so that each period is prepared on a *like-for-like* week basis.

	Accounting period		Like-for-like sales reporting period	
Half year	**Start**	**End**	**Start**	**End**
July 2021	31 Jan 2021	31 Jul 2021	31 Jan 2021	31 Jul 2021
July 2020	26 Jan 2020	25 Jul 2020	01 Feb 2020	01 Aug 2020
July 2019	27 Jan 2019	27 Jul 2019	02 Feb 2019	03 Aug 2019

STATUTORY SALES

Sales presented on pages 3 to 48 are based on "Total Sales". "Total Sales" are VAT exclusive sales, including the full value of commission based sales and interest income. For statutory reporting purposes two adjustments are made to derive statutory revenue:

1. Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue
2. Other income, which includes customer delivery charges, income for printed publications, promotional discounts, interest free credit commission costs and unredeemed gift card balances is included in statutory revenue

The impact of these adjustments is summarised as follows:

£m	July 2021	July 2020	July 2019	July 2021 vs July 2020	July 2021 vs July 2019
Total Sales	2,215.7	1,356.8	2,058.8	+63%	+8%
Adjusted for:					
Commission based sales	- 133.0	- 51.0	- 65.0	+161%	+105%
Other statutory income	+36.8	+26.9	+20.7	+37%	+78%
Statutory sales	**2,119.5**	**1,332.7**	**2,014.5**	**+59%**	**+5%**

This adjustment has no impact on profit, EPS or cash flow. The reduction in sales has a corresponding adjustment recognised in cost of sales.

Significant growth in third-party commission sales (through LABEL and Total Platform) means that the percentage of Total Sales achieved on a commission basis has grown significantly. Because only the *commission* element is recognised in statutory revenue, this means that growth in statutory revenue (+5% versus 2019) is lower than the growth reported in Total Sales (+8%).

IFRS 16 LEASES

While NEXT has applied IFRS 16 in its statutory accounts since January 2020, this is the first reporting period in which we have fully integrated the impact of IFRS 16 into the CEO Report.

As a result of this change, key metrics used in the CEO Report, including Group profit before tax, EPS and segmental profits, are different to those presented in prior years.

In order to help readers understand the impact of this change the following provides:

1) A brief reminder on how IFRS 16 accounts for leases and, in particular, how the profile of the NEXT leases impacts on its financial statements.
2) Summary income statements which show the impact of IFRS 16 for the 26 weeks ended July 2021, July 2020 and July 2019.
3) A summary of the impact on the balance sheet and statutory net debt.

IFRS 16 Leases - A Brief Reminder

Prior to IFRS 16, the total rent payable under an operating lease was charged to the P&L on a straight line basis each year. The future rental commitment, and the right to use the leased asset, was not recognised in the accounts - the lease was "off balance sheet".

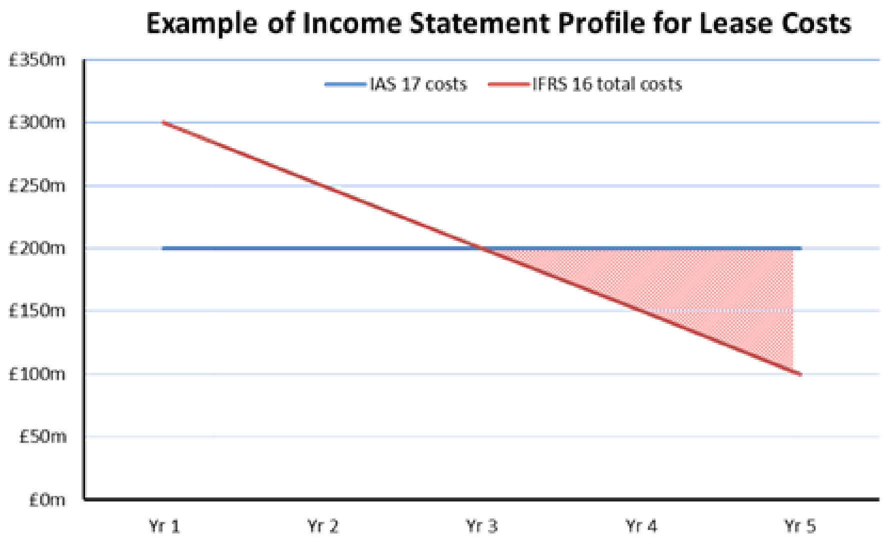
In contrast, IFRS 16 applies an "on balance sheet" approach to leases. This is primarily achieved by:

- Recognising a right-of-use asset; this represents the lessees right to use the leased asset for the lease term
- Recognising a lease liability which reflects the lessee's obligation to make payments under the terms of the lease

This has the effect of bringing operating leases onto the balance sheet.

Due to the changes on the balance sheet, the nature and timing of costs being recognised in the income statement also change, with depreciation being recognised on the right-of-use asset and finance costs being recognised on the lease liability. The rental costs recognised under the previous accounting standard for leases, IAS 17, are then excluded.

This change impacts on the phasing of costs recognised in the income statement, as shown in the illustrative graph below.



Under IFRS 16 depreciation costs are recognised on the right-of-use asset and remain consistent during the lease term. Finance costs charged to the P&L are higher at the start of the lease (when the liability to pay is higher) and reduce over the lease term. The total IFRS 16 cost is therefore higher in the early years (see years 1-2 in the graph above).

In contrast, under the previous accounting rules (IAS 17) the entire lease cost was recognised on a straight line basis as represented by the horizontal line in the chart above.

It is important to note that while the nature and profile of the P&L charge has changed, the total cost recognised over the term of the lease will remain the same.

Impact of IFRS 16 on the Income Statement

£m	July 2021	July 2020	July 2019
Profit before tax - excluding IFRS 16	**339.0**	**9.0**	**319.6**
Impact of IFRS 16 on operating profit	35.0	3.7	39.9
Impact of IFRS 16 on interest costs	(27.3)	(29.2)	(32.1)
Profit before tax - including IFRS 16	**346.7**	**(16.5)**	**327.4**
Net impact of IFRS 16	***7.7***	***(25.5)***	***7.8***

Our full year guidance of £800m includes a net benefit from IFRS 16 of £15m.

Income Statement by Segment

It is important to note that under IFRS 16 the lease costs, being split between depreciation and finance costs, are shown in **two** separate lines - depreciation is above operating profit, finance costs below. Hence IFRS 16 has a significant, positive impact on the reported operating profit, this is then partially offset by the finance costs which are below operating profit.

To illustrate the impact, the tables below show the pre and post IFRS 16 Income Statement for our main business segments and down to post tax profit.

£m	July 21 excluding IFRS 16	IFRS 16 impact	July 21 including IFRS 16
Online	312.2	5.8	**318.0**
Finance	65.6	-	**65.6**
Retail	(46.7)	28.9	**(17.8)**
Other business activity	10.7	0.3	**11.0**
Recharge of interest costs	15.7	-	**15.7**
Operating profit	**357.5**	**35.0**	**392.5**
Net external interest	(18.5)	-	**(18.5)**
Lease interest	-	(27.3)	**(27.3)**
Profit before tax	**339.0**	**7.7**	**346.7**
Tax	(55.8)	(1.3)	**(57.1)**
Profit after tax	**283.2**	**6.4**	**289.6**
Earnings Per Share (basic)	**221.8p**		**226.8p**

The impact of IFRS 16 is most pronounced on the Retail business, where our store leases sit. For the Retail business, IFRS 16 provides a £28.9m benefit to operating profit. This is partially offset by £21.4m of interest costs (within the £27.3m total shown in the table above).

The leases associated with the Online business predominantly relate to warehouses. Where a warehouse supports both the Retail and Online business, the lease costs have been allocated based on the volume of activity. The impact on the July 2020 and July 2019 results are summarised in the tables overleaf.

£m	July 20 excluding IFRS 16	IFRS 16 impact	July 20 including IFRS 16
Online	128.2	5.6	**133.8**
Finance[29]	61.6	-	**61.6**
Retail	(175.2)	31.2	**(144.0)**
Other business activity	(1.9)	(33.1)	**(35.0)**
Recharge of interest costs[29]	17.7	-	**17.7**
Operating profit	**30.4**	**3.7**	**34.1**
Net external interest	(21.4)	-	**(21.4)**
Lease interest	-	(29.2)	**(29.2)**
Profit before tax	**9.0**	**(25.5)**	**(16.5)**
Tax	6.2	(1.2)	**5.0**
Profit after tax	**15.2**	**(26.7)**	**(11.5)**
Earnings Per Share (basic)	**11.8p**		**(9.0)p**

£m	July 19 excluding IFRS 16	IFRS 16 impact	July 19 including IFRS 16
Online	177.1	5.4	**182.5**
Finance	75.8	-	**75.8**
Retail	56.0	34.8	**90.8**
Other business activity	14.2	(0.3)	**13.9**
Recharge of interest costs	17.8	-	**17.8**
Operating profit	**340.9**	**39.9**	**380.8**
Net external interest	(21.3)	-	**(21.3)**
Lease interest	-	(32.1)	**(32.1)**
Profit before tax	**319.6**	**7.8**	**327.4**
Tax	(59.1)	(1.4)	**(60.5)**
Profit after tax	**260.5**	**6.4**	**266.9**
Earnings Per Share (basic)	**199.5p**		**204.4p**

Note that, unlike July 2019 and July 2021, the impact of IFRS 16 on the July 2020 results was to *reduce* Group profit before tax. This movement was primarily the result of the difference in how the gains on the sale and leaseback transactions were recognised.

Under pre-IFRS 16 accounting, the gain on the sale and leaseback is calculated as proceeds less the net book value of the assets being sold. This resulted in a gain of £37m being recognised. However, IFRS 16 limits any gain to the element of the asset which it no longer has access to use (i.e. the element of the asset's life not within the term of the leaseback period). This resulted in the recognition of a smaller gain of £7m. This difference reduces the IFRS 16 profit, when compared to the pre-IFRS 16 profit, by £30m. In addition, in the 26 weeks to July 2020 the impairment charge under IFRS 16 was £3.4m higher than the IAS 17 equivalent.

[29] The "recharge of interest costs" (also referred to as "Cost of funding") and Finance P&L have been restated to reflect the revised approach to allocating interest costs to the Finance business (see page 40). This had no impact on Group profit. Further detail is provided in Note 3 of the Financial Statements.

Impact on the NEXT Balance Sheet and Net Debt

Full disclosure of the impact on the Group's balance sheet, and the impact on the prior year comparative (being January 2019) are provided in Note 32 of the January 2020 Annual Report.

The impact on the July 2021 balance sheet is summarised below:

£m	July 21 excluding IFRS 16	IFRS 16 impact	July 21 including IFRS 16
Non-current assets	809.2	712.5	1,521.7
Current assets	2,568.1	(44.8)	2,523.3
Total assets	**3,377.3**	**667.7**	**4,045.0**
Current liabilities	(1,151.3)	(118.9)	(1,270.2)
Non-current liabilities	(1,121.7)	(716.2)	(1,837.9)
Total liabilities	**(2,273.0)**	**(835.1)**	**(3,108.1)**
NET ASSETS	**1,104.3**	**(167.4)**	**936.9**

The key changes are:

1. The increase in non-current assets is due to the recognition of the right-of-use asset. This represents NEXT's contractual right to use the leased asset over the lease term.
2. The adjustments to current assets and current liabilities are the removal of working capital balances (such as rent prepayments and lease incentives) which are now replaced by a current lease liability.
3. Adjustment to non-current liabilities represent the removal of long-term lease incentives and onerous lease provisions which are replaced by a long term lease liability.

Net debt, including leases, is presented below:

£m	July 2021	July 2020	July 2019
Cash and cash equivalents	708.7	360.3	42.1
Unsecured bank loans	-	-	(160.0)
Corporate bonds	(1,154.4)	(1,168.6)	(1,114.6)
Fair value hedges of corporate bonds	29.2	43.6	39.2
Net debt excluding leases	**(416.5)**	**(764.7)**	**(1,193.3)**
Current lease liability	(166.2)	(168.5)	(154.5)
Non-current lease liability	(966.4)	(1,144.1)	(1,176.3)
Lease liabilities	**(1,132.6)**	**(1,312.6)**	**(1,330.8)**
Net debt including leases	**(1,549.1)**	**(2,077.3)**	**(2,524.1)**

SECTION 2 - THREE YEAR COMPARATIVES

Throughout the CEO Report, unless otherwise stated, comparisons of sales, profit and debt have been explained relative to *two years ago* (2019/20). The disruption to last year (2020/21) from COVID means that one year comparisons are generally not meaningful.

However, in accordance with the statutory requirements, the financial statements present the results for the current year and the prior period (2020/21). As a result, this report includes results for July 2021, July 2020 and July 2019. In order to assist readers with the accounts we have therefore provided a summary of the Income Statement, Balance Sheet and Cash Flow, for all three periods in this Section.

Income Statement

	26 weeks to July 2021 £m	26 weeks to July 2020 £m	26 weeks to July 2019 £m
Continuing operations			
Revenue	**2,119.5**	1,332.7	2,014.5
Cost of sales	**(1,237.3)**	(961.2)	(1,249.6)
Gross profit	**882.2**	371.5	764.9
Distribution costs	**(332.7)**	(227.0)	(249.6)
Administrative expenses	**(158.4)**	(110.5)	(131.4)
Other gains/(losses)	**2.7**	0.4	(3.2)
Trading profit	**393.8**	34.4	380.7
Share of results of associates and joint ventures	**(1.3)**	(0.3)	0.1
Operating profit	**392.5**	34.1	380.8
Finance income	**1.9**	0.2	0.1
Finance costs	**(47.7)**	(50.8)	(53.5)
Profit/(loss) before taxation	**346.7**	(16.5)	327.4
Taxation	**(57.1)**	5.0	(60.5)
Profit/(loss) attributable to equity holders of the Parent Company	**289.6**	(11.5)	266.9

Balance Sheet

	July 2021 £m	July 2020 £m	July 2019 £m
Non-current assets			
Property, plant and equipment	**512.2**	459.8	569.7
Intangible assets	**73.5**	44.2	44.5
Right-of-use assets	**678.3**	857.0	916.6
Associates, joint ventures and other investments	**39.0**	4.9	5.1
Defined benefit pension asset	**132.6**	88.1	142.0
Other financial assets	**36.7**	62.1	60.5
Deferred tax assets	**49.4**	62.8	40.5
	1,521.7	1,578.9	1,778.9
Current assets			
Inventories	**535.2**	485.3	551.1
Customer and other receivables	**1,170.4**	1,066.4	1,254.0
Right of return asset	**36.5**	30.0	32.6
Other financial assets	**16.1**	5.6	35.8
Current tax assets	**6.5**	-	-
Cash and short term deposits	**758.6**	395.8	156.9
	2,523.3	1,983.1	2,030.4
Total assets	**4,045.0**	3,562.0	3,809.3
Current liabilities			
Bank loans and overdrafts	**(49.9)**	(35.5)	(274.8)
Trade payables and other liabilities	**(714.1)**	(581.9)	(589.4)
Lease liabilities	**(166.2)**	(168.5)	(154.5)
Corporate bonds	**(325.6)**	-	-
Dividends payable	**-**	-	(140.3)
Other financial liabilities	**(14.4)**	(15.4)	(4.8)
Current tax liabilities	**-**	(5.7)	(77.9)
	(1,270.2)	(807.0)	(1,241.7)
Non-current liabilities			
Corporate bonds	**(828.8)**	(1,168.6)	(1,114.6)
Provisions	**(18.0)**	(18.6)	(15.2)
Other financial liabilities	**-**	(10.5)	(13.1)
Lease liabilities	**(966.4)**	(1,144.1)	(1,176.3)
Other liabilities	**(24.7)**	(18.5)	(17.7)
Deferred tax liabilities	**-**	-	(4.4)
	(1,837.9)	(2,360.3)	(2,341.3)
Total liabilities	**(3,108.1)**	(3,167.3)	(3,583.0)
NET ASSETS	**936.9**	394.7	226.3
TOTAL EQUITY	**936.9**	394.7	226.3

Cash Flow

	26 weeks to July 2021 £m	26 weeks to July 2020 £m	26 weeks to July 2019 £m
Cash generated from operations	**589.5**	471.9	474.8
Corporation taxes paid	**(63.4)**	(76.9)	(70.2)
Net cash from operating activities	**526.1**	395.0	404.6
Cash flows from investing activities			
Payments to acquire property, plant and equipment	**(99.0)**	(51.5)	(62.9)
Proceeds from sale of property, plant and equipment	**0.7**	-	0.2
Payments to acquire intangible assets	**(14.2)**	-	-
Investment in associates	**(34.4)**	-	-
Net cash from investing activities	**(146.9)**	(51.5)	(62.7)
Cash flows from financing activities			
Repurchase of own shares	**-**	(19.3)	(280.2)
Purchase of shares by ESOT	**(123.8)**	(87.0)	(46.2)
Disposal of shares by ESOT	**50.5**	95.7	11.7
Issue of corporate bonds	**-**	-	198.6
Repayment of unsecured bank loans	**-**	(40.0)	(95.0)
Proceeds from sale and leaseback transactions	**6.3**	145.1	-
Lease repayment	**(77.4)**	(86.6)	(75.1)
Net interest paid	**(40.0)**	(43.8)	(47.9)
Net cash from financing activities	**(184.4)**	(35.9)	(334.1)
Net increase in cash and cash equivalents	**194.8**	307.6	7.8
Opening cash and cash equivalents	**514.8**	52.9	34.0
Effect of exchange rate fluctuations on cash held	**(0.9)**	(0.2)	0.3
Closing cash and cash equivalents	**708.7**	360.3	42.1

UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	**26 weeks to 31 July 2021 £m**	26 weeks to 25 July 2020 £m
Continuing operations			
Revenue	3, 4	**2,119.5**	1,332.7
Cost of sales		**(1,237.3)**	(961.2)
Gross profit		**882.2**	371.5
Distribution costs		**(332.7)**	(227.0)
Administrative expenses		**(158.4)**	(110.5)
Other gains		**2.7**	0.4
Trading profit		**393.8**	34.4
Share of results of associates and joint ventures		**(1.3)**	(0.3)
Operating profit	5	**392.5**	34.1
Finance income	6	**1.9**	0.2
Finance costs	6	**(47.7)**	(50.8)
Profit/(loss) before taxation		**346.7**	(16.5)
Taxation	7	**(57.1)**	5.0
Profit/(loss) attributable to equity holders of the Parent Company		**289.6**	(11.5)

Earnings Per Share (pence)			
Basic	8	**226.8p**	(9.0)p
Diluted	8	**223.8p**	(9.0)p

The results for the 26 weeks to 25 July 2020 show a loss after taxation of £11.5m. This period was significantly impacted by the COVID pandemic which resulted in the temporary closure of both our warehouses and stores, resulting in a significant decrease in sales and profit.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	26 weeks to 31 July 2021 £m	26 weeks to 25 July 2020 £m
Profit/(loss) for the period	**289.6**	(11.5)
Other comprehensive income and expenses:		
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on defined benefit pension scheme	**35.5**	(48.8)
Tax relating to items which will not be reclassified	**(8.9)**	9.3
Subtotal items that will not be reclassified	**26.6**	(39.5)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**1.7**	(0.2)
Foreign currency cash flow hedges:		
- fair value movements	**(2.9)**	21.8
Cost of hedging		
- fair value movements	**0.1**	0.9
Tax relating to items which may be reclassified	**0.5**	(3.6)
Subtotal items that may be reclassified	**(0.6)**	18.9
Other comprehensive income/(expense) for the period	**26.0**	(20.6)
Total comprehensive income/(expense) for the period	**315.6**	(32.1)

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	**31 July 2021 £m**	25 July 2020 £m	30 January 2021 £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		**512.2**	459.8	474.8
Intangible assets		**73.5**	44.2	60.5
Right-of-use assets	18	**678.3**	857.0	720.1
Associates, joint ventures and other investments	10	**39.0**	4.9	5.0
Defined benefit pension asset	11	**132.6**	88.1	99.2
Other financial assets	12	**36.7**	62.1	39.4
Deferred tax assets		**49.4**	62.8	70.4
		1,521.7	1,578.9	1,469.4
Current assets				
Inventories		**535.2**	485.3	536.9
Customer and other receivables	13	**1,170.4**	1,066.4	1,108.1
Right of return asset		**36.5**	30.0	24.3
Other financial assets	12	**16.1**	5.6	11.1
Current tax assets		**6.5**	-	-
Cash and short term deposits	17	**758.6**	395.8	608.2
		2,523.3	1,983.1	2,288.6
Total assets		**4,045.0**	3,562.0	3,758.0
Current liabilities				
Bank loans and overdrafts	17	**(49.9)**	(35.5)	(93.4)
Trade payables and other liabilities	14	**(714.1)**	(581.9)	(555.3)
Lease liabilities	18	**(166.2)**	(168.5)	(170.1)
Corporate bonds	15	**(325.6)**	-	(326.0)
Other financial liabilities	12	**(14.4)**	(15.4)	(37.2)
Current tax liabilities		**-**	(5.7)	(14.8)
		(1,270.2)	(807.0)	(1,196.8)
Non-current liabilities				
Corporate bonds	15	**(828.8)**	(1,168.6)	(837.0)
Provisions		**(18.0)**	(18.6)	(18.6)
Other financial liabilities	12	**-**	(10.5)	-
Lease liabilities	18	**(966.4)**	(1,144.1)	(1,015.8)
Other liabilities		**(24.7)**	(18.5)	(28.9)
		(1,837.9)	(2,360.3)	(1,900.3)
Total liabilities		**(3,108.1)**	(3,167.3)	(3,097.1)
NET ASSETS		**936.9**	394.7	660.9
TOTAL EQUITY		**936.9**	394.7	660.9

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Foreign currency translation £m	Other reserves £m	Retained earnings £m	Total equity £m
At 30 January 2021	**13.3**	**0.9**	**16.6**	**(271.2)**	**(19.7)**	**0.1**	**(2.5)**	**(1,443.8)**	**2,367.2**	**660.9**
Profit for the period	-	-	-	-	-	-	-	-	289.6	289.6
Other comprehensive income/(expense) for the period	-	-	-	-	(2.4)	0.1	1.7	-	26.6	26.0
Total comprehensive income/(expense) for the period	-	-	-	-	(2.4)	0.1	1.7	-	316.2	315.6
Reclassified to cost of inventory	-	-	-	-	27.8	-	-	-	-	27.8
Share buybacks and commitments	-	-	-	-	-	-	-	-	-	-
ESOT share purchases	-	-	-	(123.8)	-	-	-	-	-	(123.8)
Shares issued by ESOT	-	-	-	59.6	-	-	-	-	(12.9)	46.7
Share option charge	-	-	-	-	-	-	-	-	9.1	9.1
Tax recognised directly in equity	-	-	-	-	(5.3)	-	-	-	5.9	0.6
At 31 July 2021	**13.3**	**0.9**	**16.6**	**(335.4)**	**0.4**	**0.2**	**(0.8)**	**(1,443.8)**	**2,685.5**	**936.9**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Foreign currency translation £m	Other reserves £m	Retained earnings £m	Total equity £m
At 25 January 2020	13.3	0.9	16.6	(284.9)	(24.7)	0.5	-	(1,443.8)	2,163.6	441.5
Loss for the period	-	-	-	-	-	-	-	-	(11.5)	(11.5)
Other comprehensive income/(expense) for the period	-	-	-	-	18.4	0.7	(0.2)	-	(39.5)	(20.6)
Total comprehensive income/(expense) for the period	-	-	-	-	18.4	0.7	(0.2)	-	(51.0)	(32.1)
Reclassified to cost of inventory	-	-	-	-	(1.5)	-	-	-	-	(1.5)
Share buybacks and commitments	-	-	-	-	-	-	-	-	(19.3)	(19.3)
ESOT share purchases	-	-	-	(87.0)	-	-	-	-	-	(87.0)
Shares sold/issued by ESOT	-	-	-	123.4	-	-	-	-	(29.1)	94.3
Share option charge	-	-	-	-	-	-	-	-	7.8	7.8
Tax recognised directly in equity	-	-	-	-	-	-	-	-	(9.0)	(9.0)
At 25 July 2020	**13.3**	**0.9**	**16.6**	**(248.5)**	**(7.8)**	**1.2**	**(0.2)**	**(1,443.8)**	**2,063.0**	**394.7**

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**26 weeks to 31 July 2021 £m**	26 weeks to 25 July 2020 £m
Cash generated from operations		**589.5**	471.9
Corporation taxes paid		**(63.4)**	(76.9)
Net cash from operating activities		**526.1**	395.0
Cash flows from investing activities			
Additions to property, plant and equipment		**(62.5)**	(47.2)
Development of warehouse build		**(30.2)**	-
Movement in capital accruals		**(6.3)**	(4.3)
Payments to acquire property, plant and equipment		**(99.0)**	(51.5)
Proceeds from sale of property, plant and equipment		**0.7**	-
Purchase of intangible assets		**(14.2)**	-
Investment in associates	10	**(34.4)**	-
Net cash from investing activities		**(146.9)**	(51.5)
Cash flows from financing activities			
Repurchase of own shares		**-**	(19.3)
Purchase of shares by ESOT		**(123.8)**	(87.0)
Disposal of shares by ESOT		**50.5**	95.7
Repayment of unsecured bank loans		**-**	(40.0)
Proceeds from sale and leaseback transactions		**6.3**	145.1
Lease repayment		**(77.4)**	(86.6)
Interest paid		**(40.2)**	(43.9)
Interest received		**0.2**	0.1
Net cash from financing activities		**(184.4)**	(35.9)
Net increase in cash and cash equivalents		**194.8**	307.6
Opening cash and cash equivalents		**514.8**	52.9
Effect of exchange rate fluctuations on cash held		**(0.9)**	(0.2)
Closing cash and cash equivalents	17	**708.7**	360.3

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The Group's interim results for the 26 weeks to 31 July 2021 (prior year 26 weeks to 25 July 2020) were approved by the Board of Directors on 29 September 2021 and have been prepared in accordance with UK adopted IAS 34 "*Interim financial reporting"* and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority.

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"*.

The financial information contained in this report is condensed and does not include all of the information and disclosures required in the annual financial statements. It should be read in conjunction with the Group's annual consolidated financial statements for the 53 weeks to 30 January 2021 which were prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and which 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 Section 498(2) or (3) of the Companies Act 2006.

In the year to 29 January 2022 the annual financial statements will be prepared in accordance with IFRS as adopted by the UK Endorsement Board. This change in the basis of preparation is required by UK company law for financial reporting as a result of the UK's exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020.

This change does not constitute a change in accounting policy but rather a change in the framework. This has no impact on recognition, measurement or disclosure.

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. Where applicable, disclosures required by paragraph 16A of IAS 34 are given either in these interim financial statements or in the accompanying Chief Executive's Review.

New accounting standards, interpretations and amendments adopted by the Group
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 53 weeks ended 30 January 2021.

Major sources of estimation uncertainty and judgement
The preparation of the interim financial statements requires the directors to form estimations and assumptions that affect the reported values of assets, liabilities, revenues and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis with revisions to accounting estimates recognised in the year in which the estimate is revised.

In preparing these interim financial statements the directors have given specific consideration to events including the continued impact of the COVID pandemic. As a result, they have identified the following areas as key estimates that have a significant risk of resulting in a material adjustment to the carrying value of assets and liabilities in the next year.

1. Basis of preparation (continued)

Expected credit losses (ECL) on Online customer and other receivables
The provision for the allowance for ECL (Note 13) is calculated using a combination of internally and externally sourced information, including future default levels (derived from historical defaults overlaid by indebtedness profiles and macro-economic assumptions), future predicted cash collection levels (derived from past trends), arrears stage and customer indebtedness and other credit data. Please refer to the January 2021 Annual Report for further details of the underlying assumptions used within the ECL calculations (pages 165 to 166).

The most significant area of judgement in the July 2021 provision is the expected performance of borrowers as Government support initiatives such as payment holidays and the Job Retention Scheme are withdrawn.

Key inputs in the underlying ECL model are customer indebtedness index (CII) scores and the arrears profile of customers. Management considers that both elements have been favourably impacted by the Government support initiatives detailed above and their recent withdrawal may adversely impact the recoverability of the receivables.

As a result, management believes that the modelled ECL based on these inputs does not reflect the underlying risk of the book. Last year an additional charge of £20m was made for expected COVID-related losses. In order to maintain the level of ECL coverage, the following overlays have been applied:

1. £9.5m reflects the uplift of the average CII profile by +14.5%, bringing it in line with pre-COVID levels; and
2. £22m reflects management's view of the effect of lower than normal arrears levels. The proportion of the non defaulted balance which is currently in arrears or on a payment arrangement was 4.8% in July 2021, compared to 5.8% in January 2021 and 7.5% pre-COVID in January 2020

These overlays do not result in an increased impairment charge compared with last year (see Note 5).

In the five weeks following the interim period end date, £0.2bn of the £1.1bn NEXT customer and other trade receivables has been recovered.

Net realisable value of inventories
The selling prices of inventory are estimated to determine the net realisable value of inventory. Historical sales patterns and post period end trading performance are used to determine these. A 2% change in the volume of inventories going to clearance would impact the net realisable value by circa £5m. A 2% change in the level of markdown applied to the selling price would impact the value of inventories going to clearance by circa £5m.

1. Basis of preparation (continued)

Going concern

In adopting the going concern basis for preparing the interim financial statements, the directors have considered the business activities including the Group's principal risks and uncertainties. The directors also considered the Group's current cash position, the repayment profile of its existing debt structure (including the maturity of the £325m Bond in October 2021) and the resilience of its 12 month cash flow forecasts to a series of severe but plausible downside scenarios such as further enforced store closures. Having considered these factors, the directors are satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the interim financial statements for the 26 weeks ended 31 July 2021.

2. Risks and uncertainties

The Board has considered the principal risks and uncertainties for the remaining half of the financial year and determined that the risks presented in the January 2021 Annual Report, described as follows, also remain relevant to the rest of the financial year: Business strategy development and implementation; Product design and selection; Key suppliers and supply chain management; Warehousing and distribution; Business critical systems; Management of long term liabilities and capital expenditure; Information security, data protection, business continuity and cyber risk; Financial, treasury, liquidity and credit risks; and Legal, regulatory and ethical standards compliance. These are detailed on pages 72 to 76 of the January 2021 Annual Report, a copy of which is available on the Company's website at www.nextplc.co.uk.

3. Segmental analysis

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

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

Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. "Total sales" represents the full customer sales value of commission based sales and interest income, excluding VAT. Under IFRS 15 "Revenue from contracts with customers", total sales have also been adjusted for customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances. The CODM uses the total sales as a key metric in assessing segment performance; accordingly, this is presented below and then reconciled to the statutory revenue.

In common with many retailers, revenue and trading profit are subject to seasonal fluctuations and are weighted towards the second half of the year which includes the key Christmas period for the business.

3. Segmental analysis (continued)

Segment sales and revenue

26 weeks to 31 July 2021	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Online	**1,522.5**	**(132.3)**	**37.0**	**1,427.2**	**-**	**1,427.2**
NEXT Finance	**119.2**	**-**	**-**	**119.2**	**-**	**119.2**
NEXT Retail	**540.1**	**(0.7)**	**(0.2)**	**539.2**	**-**	**539.2**
NEXT International Retail	**22.9**	**-**	**-**	**22.9**	**-**	**22.9**
NEXT Sourcing	**4.5**	**-**	**-**	**4.5**	**222.7**	**227.2**
	2,209.2	**(133.0)**	**36.8**	**2,113.0**	**222.7**	**2,335.7**
Lipsy	**2.1**	**-**	**-**	**2.1**	**48.9**	**51.0**
NENA	**0.1**	**-**	**-**	**0.1**	**0.3**	**0.4**
Property Management	**4.3**	**-**	**-**	**4.3**	**88.8**	**93.1**
Total segment sales/revenue	**2,215.7**	**(133.0)**	**36.8**	**2,119.5**	**360.7**	**2,480.2**
Eliminations	**-**	**-**	**-**	**-**	**(360.7)**	**(360.7)**
Total	**2,215.7**	**(133.0)**	**36.8**	**2,119.5**	**-**	**2,119.5**

26 weeks to 25 July 2020	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Online	862.6	(50.3)	27.3	839.6	-	839.6
NEXT Finance	127.9	-	-	127.9	-	127.9
NEXT Retail	344.6	(0.7)	(0.4)	343.5	0.1	343.6
NEXT International Retail	12.0	-	-	12.0	-	12.0
NEXT Sourcing	2.6	-	-	2.6	150.9	153.5
	1,349.7	(51.0)	26.9	1,325.6	151.0	1,476.6
Lipsy	2.5	-	-	2.5	21.3	23.8
NENA	0.2	-	-	0.2	-	0.2
Property Management	4.4	-	-	4.4	97.0	101.4
Total segment sales/revenue	1,356.8	(51.0)	26.9	1,332.7	269.3	1,602.0
Eliminations	-	-	-	-	(269.3)	(269.3)
Total	1,356.8	(51.0)	26.9	1,332.7	-	1,332.7

NENA (Next Europe and North Africa) is a sourcing business primarily supporting the Retail and Online business.

3. Segmental analysis (continued)

In the Chief Executive's Review, Label commission sales include sales of all Lipsy stock on the NEXT website because NEXT trades on a commission basis with Lipsy. However, as Lipsy is a Group company, no commission adjustment is required in respect of this for external revenue in the notes above.

Segment profit

	26 weeks to 31 July 2021 £m	26 weeks to 25 July 2020 £m Restated*
NEXT Online	**318.0**	133.8
NEXT Finance	**65.6**	61.6
NEXT Retail	**(17.8)**	(144.0)
NEXT International Retail	**2.2**	0.5
NEXT Sourcing	**14.3**	4.7
	382.3	56.6
Lipsy	**8.2**	0.6
Property Management	**7.0**	(29.4)
Total segment profit	**397.5**	27.8
Central costs and other	**(12.0)**	(3.7)
Recharge of interest	**15.7**	17.7
Share option charge	**(10.1)**	(7.8)
Unrealised foreign exchange gains	**2.7**	0.4
Trading profit	**393.8**	34.4
Share of results of associates and joint ventures	**(1.3)**	(0.3)
Finance income	**1.9**	0.2
Finance costs	**(47.7)**	(50.8)
Profit/(loss) before tax	**346.7**	(16.5)

***Restatement**
During the current financial year, the impact of IFRS 16 "leases" has been embedded into the internal reporting segments and, accordingly, the segmental results presented now include the impact of IFRS 16 at a segmental level. The prior period comparative analysis has been restated to reflect this change.

In addition, the CODM has altered the internal reporting of finance costs allocated to NEXT Finance. Page 41 of the January 2021 Annual Report sets out how this calculation previously operated. Since then we have made two changes to the methodology:

1. Cash on deposit has been removed from the average Group debt calculation and interest earned on this cash has been removed from the Group interest charge
2. Interest income from associates and joint ventures (e.g. loan advanced to Reiss), has been excluded

3. Segmental analysis (continued)

The effect of these changes reduces the effective interest charge applied to the NEXT Finance business and ensures consistency with the interest rate on the Group's external debt. The impact of these changes has increased the NEXT Finance profit by £17.8m (2020: £2.7m) but there is no impact on overall Group profit as this is a recharge between segments only.

4. Revenue

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

26 weeks to 31 July 2021

	Sale of goods £m	**Credit account interest £m**	**Royalties £m**	**Rental income £m**	**Total £m**
NEXT Online	**1,427.2**	**-**	**-**	**-**	**1,427.2**
NEXT Finance	**-**	**119.2**	**-**	**-**	**119.2**
NEXT Retail	**539.2**	**-**	**-**	**-**	**539.2**
NEXT International Retail	**20.6**	**-**	**2.3**	**-**	**22.9**
NEXT Sourcing	**4.5**	**-**	**-**	**-**	**4.5**
Lipsy	**1.2**	**-**	**0.9**	**-**	**2.1**
NENA	**0.1**	**-**	**-**	**-**	**0.1**
Property Management	**-**	**-**	**-**	**4.3**	**4.3**
Total	**1,992.8**	**119.2**	**3.2**	**4.3**	**2,119.5**

26 weeks to 25 July 2020

	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Online	839.6	-	-	-	839.6
NEXT Finance	-	127.9	-	-	127.9
NEXT Retail	343.5	-	-	-	343.5
NEXT International Retail	10.6	-	1.4	-	12.0
NEXT Sourcing	2.6	-	-	-	2.6
Lipsy	1.7	-	0.8	-	2.5
NENA	-	-	0.2	-	0.2
Property Management	-	-	-	4.4	4.4
Total	1,198.0	127.9	2.4	4.4	1,332.7

5. Operating profit

Group operating profit is stated after charging/(crediting):

	26 weeks to 31 July 2021 £m	26 weeks to 25 July 2020 £m
Impairment charges on tangible assets	**0.3**	5.6
Impairment charges on right-of-use assets	**-**	35.9
Depreciation of plant, property and equipment	**52.1**	57.7
Loss on disposal of plant, property and equipment	**2.8**	0.3
Depreciation of right-of-use asset	**57.9**	69.2
Amortisation of intangible assets	**1.2**	-
Write down of inventories to net realisable value	**51.1**	78.2
Job Retention Scheme receipts	**(21.8)**	(79.4)
Customer and other receivables:		
Impairment charge	**22.7**	34.3
Amounts recovered	**(4.7)**	(1.0)

6. Finance income and costs

	26 weeks to 31 July 2021 £m	26 weeks to 25 July 2020 £m
Interest on bank deposits	**0.3**	0.2
Other interest receivable	**1.6**	-
Finance income	**1.9**	0.2
Interest on bonds and other borrowings	**20.2**	21.4
Other fair value movements	**0.2**	0.2
Finance costs on lease liability	**27.3**	29.2
Finance costs	**47.7**	50.8

7. Taxation

Income tax expense is recognised based on management’s best estimate of the full year effective tax rate based on estimated full year profits. It is adjusted for material, non-recurring transactions in the period to which they relate.

8. Earnings Per Share

	26 weeks to 31 July 2021	26 weeks to 25 July 2020
Basic Earnings Per Share	**226.8p**	(9.0)p
Diluted Earnings Per Share	**223.8p**	(9.0)p

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

Diluted EPS is calculated by adjusting the weighted average number of shares used for the calculation of basic EPS as increased by the dilutive effect of potential ordinary shares. Dilutive shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period. Their dilutive effect is calculated on the basis of the equivalent number of nil cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. In the current period, there were 1.2 million non-dilutive share options which were excluded from the diluted EPS calculation (2020: 3.8 million).

The table below shows the key variables used in the EPS calculations:

	26 weeks to 31 July 2021 £m	26 weeks to 25 July 2020 £m
Profit/(loss) after tax attributable to equity holders of the Parent Company	**289.6**	(11.5)
Weighted average number of shares (millions):		
Weighted average shares in issue	**132.9**	133.0
Weighted average shares held by ESOT	**(5.2)**	(4.2)
Weighted average shares for basic EPS	**127.7**	128.8
Weighted average dilutive potential shares	**1.7**	0.5
Weighted average shares for diluted EPS	**129.4**	129.3

9. Dividends

No dividends were paid in the period to July 2021 (July 2020: Nil).

A special interim dividend of 110p per share was paid on 3 September 2021 to shareholders registered at the close of business on 13 August 2021. The total value paid out was £140m.

10. Associates, joint ventures and other investments

	31 July 2021	25 July 2020	30 January 2021
	£m	£m	£m
Opening balance	**5.0**	5.0	5.0
Acquisitions in the period	**34.4**	-	2.4
Share of operating (losses)/profits	**(1.3)**	(0.1)	0.5
Finance income	**1.1**	-	-
Disposals	**-**	-	(2.8)
Impairment charge	**(0.2)**	-	(0.1)
Closing balance	**39.0**	4.9	5.0

On 10 March 2021 NEXT acquired 25% indirect interest in Reiss Limited ("Reiss") through the acquisition of shares from existing shareholders, in the holding company of the Reiss business. Upon completion of the deal, NEXT made an investment of £33m and advanced a loan of £10m, financed from NEXT's own cash resources. The loan is recognised within "amounts due from associates and joint ventures" Note 13.

The finance income relates to interest on NEXT's share of preference shares in the Reiss group's ultimate holding company. This has been recognised within the Finance income line of the Income Statement.

The remaining additions in the period relate to the acquisition of a 33% equity interest in Aubin and Wills Holdings Limited.

11. Defined benefit pension

The principal pension scheme is the 2013 NEXT Group Pension Plan, which includes defined benefit and defined contribution sections. The movement in the defined benefit pension surplus in the period is as follows:

	26 weeks to 31 July 2021 £m	26 weeks to 25 July 2020 £m	53 weeks to 30 January 2021 £m
Surplus in schemes at the beginning of the period	**99.2**	133.4	133.4
Current service cost	**(4.4)**	(4.8)	(8.6)
Administration costs	**(1.0)**	(1.1)	(2.2)
Net interest	**0.9**	1.2	2.1
Employer contributions	**2.4**	8.2	25.1
Benefits paid	**-**	-	6.5
Actuarial gains/(losses)	**35.5**	(48.8)	(57.1)
Surplus in schemes at the end of the period	**132.6**	88.1	99.2

The surplus in the schemes has moved from £99.2m at January 2021 to £132.6m at July 2021, primarily due to actuarial gains of £35.5m. The majority of this movement results from changes in the fair value of the plan assets. The prior year actuarial loss was the result of updating the membership data in line with the triennial valuation for both actual member experience, and the split of the pension liabilities between the various tranches of benefit.

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

	26 weeks to 31 July 2021	26 weeks to 25 July 2020	53 weeks to 30 January 2021
Discount rate	**1.65%**	1.60%	1.65%
Inflation – RPI	**3.10%**	2.70%	2.75%
Inflation – CPI	**2.30%**	1.80%	1.95%
Salary increases	**-**	-	-
Pension increases in payment			
- RPI with a maximum of 5%	**2.90%**	2.65%	2.70%
- RPI with a maximum of 2.5% and discretionary increases	**2.00%**	1.85%	1.90%

12. Other financial assets and liabilities

Other financial assets and other financial liabilities include the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks. All derivatives are categorised as Level 2 under the requirements of IFRS 13 "Fair value measurement", as they are valued using techniques based significantly on observed market data (refer to the Fair Value Hierarchy table in Note 27 of the January 2021 Annual Report).

13. Customer and other receivables

	31 July 2021	25 July 2020	30 January 2021
	£m	£m	£m
Gross customer receivables	**1,312.9**	1,250.9	1,275.4
Less: refund liabilities	**(69.3)**	(61.1)	(51.8)
Net customer receivables	**1,243.6**	1,189.8	1,223.6
Less: allowance for expected credit losses	**(191.9)**	(197.0)	(195.5)
	1,051.7	992.8	1,028.1
Other trade receivables	**19.1**	14.2	14.0
Less: allowance for doubtful debts	**(1.2)**	(1.4)	(0.6)
	1,069.6	1,005.6	1,041.5
Prepayments	**49.3**	34.4	31.5
Other debtors	**27.9**	22.4	23.3
Amounts due from associates and joint ventures	**23.6**	4.0	11.8
	1,170.4	1,066.4	1,108.1

No interest is charged on customer receivables if the statement balance is paid in full and to terms; otherwise balances bear interest at a variable annual percentage rate of 23.9% at the half year end date (2020: 23.9%) except for £28.1m (July 2020: £8.1m, January 2021: £18.6m) of next3step balances that bear interest at 29.9% (2020: 29.9%).

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision. The expected credit losses incorporate forward looking information.

The fair value of customer receivables and other trade receivables is approximately £1,040m (July 2020: £960m, January 2021: £1,005m). This has been calculated based on future cash flows discounted at an appropriate rate for the risk of the debt. The fair value is within Level 3 of the fair value hierarchy (refer to the Fair Value Hierarchy table in Note 27 of the January 2021 Annual Report).

Expected irrecoverable amounts on balances with indicators of impairment are provided for based on past default experience, adjusted for expected behaviour. Receivables which are impaired, other than by age or default, are separately identified and provided for as necessary.

14. Trade payables and other liabilities (current)

	31 July 2021	25 July 2020	30 January 2021
	£m	£m	£m
Trade payables	**212.6**	191.5	172.6
Refund liabilities	**6.8**	5.6	6.8
Other taxation and social security	**70.5**	81.2	59.1
Deferred revenue from the sale of gift cards	**64.3**	64.3	71.7
Share-based payment liability	**0.2**	0.1	0.2
Other creditors and accruals	**359.7**	239.2	244.9
	714.1	581.9	555.3

15. Corporate bonds

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

	Nominal value			Balance sheet value		
	31 July 2021	25 July 2020	30 January 2021	**31 July 2021**	25 July 2020	30 January 2021
	£m	£m	£m	**£m**	£m	£m
Corporate bond 5.375% repayable 2021	**325.0**	325.0	325.0	**325.6**	326.6	326.0
Corporate bond 3.000% repayable 2025	**250.0**	250.0	250.0	**250.0**	250.0	250.0
Corporate bond 4.375% repayable 2026	**250.0**	250.0	250.0	**278.8**	292.0	287.0
Corporate bond 3.625% repayable 2028	**300.0**	300.0	300.0	**300.0**	300.0	300.0
	1,125.0	1,125.0	1,125.0	**1,154.4**	1,168.6	1,163.0

As explained in the January 2021 Annual Report, the Group uses interest rate derivatives to manage part of the interest rate risk associated with its corporate bonds, whereby the carrying value of the relevant bonds is adjusted for changes in fair value attributable to the hedged risk.

As at July 2021, the fair value of the Group's corporate bonds was £1,245.7m (July 2020: £1,168.0m, January 2021: £1,248.7m). The fair values are market values at the balance sheet date (IFRS 13 Level 1).

16. Share buybacks

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

	2021 Shares '000	**2021 £m**	2020 Shares '000	2020 £m
Shares in issue at start of year	**132,949**	**13.3**	133,229	13.3
Shares purchased for cancellation in the period	**-**	**-**	(280)	-
Shares in issue at July	**132,949**	**13.3**	132,949	13.3

The total cost of shares purchased for cancellation as shown in the Statement of Changes in Equity was £Nil (2020: £19.3m).

17. Analysis of net debt

	31 July 2021 £m	25 July 2020 £m	30 January 2021 £m
Cash and short term deposits	**758.6**	395.8	608.2
Overdrafts and short term borrowings	**(49.9)**	(35.5)	(93.4)
Cash and cash equivalents	**708.7**	360.3	514.8
Corporate bonds	**(1,154.4)**	(1,168.6)	(1,163.0)
Fair value hedges of corporate bonds	**29.2**	43.6	38.0
Net debt excluding leases	**(416.5)**	(764.7)	(610.2)
Current lease liability	**(166.2)**	(168.5)	(170.1)
Non-current lease liability	**(966.4)**	(1,144.1)	(1,015.8)
	(1,132.6)	(1,312.6)	(1,185.9)
Net debt including leases	**(1,549.1)**	(2,077.3)	(1,796.1)

18. Leases

	31 July 2021	25 July 2020	30 January 2021
	£m	£m	£m
Right-of-use assets	**678.3**	857.0	720.1
Maturity profile of lease liability			
Less than 1 year	**166.2**	168.5	170.1
More than 1 year	**966.4**	1,144.1	1,015.8
Total lease liability	**1,132.6**	1,312.6	1,185.9

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 '*Interim financial reporting*';

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

Amanda James
Group Finance Director

29 September 2021

The full half year report and the results presentation can be found on the Company's website at www.nextplc.co.uk.

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

Certain statements which appear in a number of places throughout this document are "forward looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to the risks described in "Risks & Uncertainties" on pages 72 to 76 of the January 2021 Annual Report and those matters highlighted in the Chief Executive's review; failure by NEXT to accurately predict customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in the level of store traffic or consumer spending habits; effectiveness of NEXT's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; insufficient consumer interest in NEXT Online; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. These forward looking statements do not amount to any representation that they will be achieved as they involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.