next plc

Results for the

Half Year Ending

July 2018

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CHIEF EXECUTIVE'S REVIEW

INTRODUCTION & DOCUMENT STRUCTURE

INTRODUCTION

First half full price sales were up +4.5% on last year. This was ahead of the +1.0% guidance given in January and the +2.2% given in May. When we issued our August Trading Statement we believed that there was a high risk that the sales gained in July would be offset by losses in August. As it turned out, we did not experience any material loss of sales in August or early September, so we are now raising our central guidance for full year profit before tax by +£10m to £727m. This is broadly in line with last year's profit of £726.1m and would deliver a growth in Earnings Per Share of +5.0%.

The UK retail market remains volatile, subject to powerful structural and cyclical changes. Many of these headwinds have not abated. As expected, sales in our stores (which now account for just under half of our turnover) continue to be challenging.

We believe the over-performance in the first half was flattered by the unusually warm summer and we remain cautious in our outlook for the rest of the year (for more detailed guidance on outlook for sales and profit, see page 42).

STRUCTURE OF THIS DOCUMENT

The document structure is set out in the table below. We have separated (1) the analysis of performance in the half year from (2) our outlook and guidance for the full year. We have also added a section detailing (3) the Company's preparations for Brexit, focusing on the most challenging scenario of a no-deal Brexit.

BIG PICTURE

There is a lot of detail in this document. Given the level of change NEXT is experiencing, we feel it is important to give as full a picture as possible of how we are responding to the threats and opportunities of a rapidly changing retail world. The summary below outlines the main themes within the document, along with page references for further detail.

Retail in an Online World

The overarching story centres on the profound and rapid structural change in our sector, with ever increasing volumes of sales transferring online. It is worth reflecting that 10 years ago NEXT Retail contributed £2.2bn turnover to the Group and accounted for 67% of Group sales and profit. This year we expect Retail sales, at just under £2bn, to contribute less than half of our Group sales and only 30% of Group profit.

The fact that our Retail sales have only fallen by 10% in a period where like-for-like sales declined by 32%[1] is because we have continued to invest in profitable new space. The disciplines we have imposed on this investment programme have stood us in good stead. Relatively short lease terms, high profitability hurdles, rigorous depreciation policies and a two year payback hurdle on capital invested, collectively mean that our Retail portfolio remains very profitable (p11) and our lease commitments relatively light (p11).

The challenge in Retail is twofold. Firstly, we need to make sure that we rigorously control our Retail costs (p12). In particular, we must ensure that we take maximum advantage of the many lease expiries we will experience over the next few years. Our aim is to manage rent levels and new lease terms to match today's levels of trade and volatility (p10). More importantly, we are intensely focused on increasing the role our stores play as an integral part of our Online Platform's delivery and returns network.

NEXT's Online Platform

The NEXT Online Platform consists of our customer base (p16), credit platform (p25), internal and third-party logistics networks, warehouses *and* stores. It is the continued development of this Platform that has enabled our Online sales (including interest income) to grow at a compound rate of 10% per annum since 2008, taking it from a turnover of £816m to an estimated £2.1bn this year. We continue to invest and innovate to accelerate the growth of this business through new digital marketing (p16), website enhancements (p17), delivery services and broader product offers.

In terms of the breadth of our product offer, the story goes beyond simply extending NEXT branded product ranges. Over the last ten years, we have gradually transformed our website from a single brand site to an online aggregator of clothing, footwear and home brands. This year we expect to sell around £370m of third-party product through LABEL (p18), a business that continues to grow and develop.

The NEXT Brand continues to develop overseas through its presence online (p19). Sales of NEXT branded product continue to grow strongly, both through our own international websites and local third-party aggregators. We expect our Online Overseas business to turn over around £355m in the current year and account for just under 20% of our Online sales (excluding Finance interest income).

[1] The like-for-like sales reduction has been calculated by compounding the last 10 years' annual like-for-like sales performance.

The transition from Retail to Online has not been painless and represents a continuing battle. The juxtaposition of Retail's fixed cost base with Online's variable costs and lower third-party margins is challenging. To make up for the profit on a 5% loss of sales in our Retail business, Online sales (at current average margins) would have to grow by 8%. Of course, as our Online business grows in size, the percentage growth required to make up for Retail's decline will reduce. See costs of structural change (p40).

Capital Discipline and Cash Generation
Despite the speed of change, we believe that the Group is likely to remain highly cash generative. Looking forward, we believe that the increase in investment needed in warehousing and systems to accommodate growth Online (p21) will broadly be matched by a decline in the levels of investment required in our stores. We remain disciplined in our approach to the distribution of surplus cash. If surplus cash cannot be invested at healthy returns and is not needed to develop the business, it is returned to shareholders. This calendar year we have returned £300m to shareholders via share buybacks, as we indicated we would in January. We estimate the share buybacks (including some effect from buybacks last year) will enhance Earnings Per Share in the current year by 4.6%[2].

In 2018/19 we now believe that we can roughly balance the bad news with good, and the most likely outcome is for profit to finish close to last year's performance. This, along with share buybacks, would mean that at our central guidance Earnings Per Share would rise by +5.0% (p42).

Direction of Travel
We are often asked: "What will the high street look like in 10 years' time?" The only honest answer to this question is that we do not know; we can see the general direction of travel but can predict neither the speed nor endpoint for the changes that lie ahead.

Our approach is to build as much flexibility into our operations and cost base as is possible to minimise the negative effects of falling Retail sales and maximise opportunities for growth Online. This means a constant process of reinvention and experimentation within our business, whilst preserving the integrity of our brand, the calibre of our people, quality of the operations and the profitability of the Group. The task remains extremely challenging, but with more than half of our sales now coming from our Online and Finance businesses, it feels like we are moving in the right direction.

[2] The difference between forecast post-tax profit growth and Earnings Per Share growth

CONTENTS

PART 1
REVIEW OF FINANCIAL PERFORMANCE

FINANCIAL OVERVIEW

NEXT Brand full price sales[3] in the first half were up **+4.5%** and total sales[4] (including markdown) were up **+3.9%** on last year. Group profit before tax was up +0.5% and Earnings Per Share (EPS) were up **+4.9%.**

We are declaring an ordinary interim dividend of 55p per share, which is up +3.8% on last year.

TOTAL SALES	**July 2018**	**July 2017**	
	£m	**£m**	
Retail	925.1	993.2	- 6.9%
Online	892.3	764.3	+16.8%
Finance	122.0	108.5	+12.5%
Brand	**1,939.4**	**1,866.0**	**+3.9%**
Other[5]	46.8	48.0	
Total Group sales	**1,986.2**	**1,914.0**	+3.8%
Statutory revenue	1,961.9	1,902.3[6]	

PROFIT and EPS	**July 2018**	**July 2017[7]**	
	£m	**£m**	
Retail	73.2	95.1	- 23.0%
Online	163.3	134.8	+21.2%
Finance (after funding costs)	57.9	58.7	- 1.3%
Brand	**294.4**	**288.6**	**+2.0%**
Other	16.3	18.0	
Recharge of interest to Finance	19.8	18.6	
Operating profit	330.5	325.2	+1.6%
Net external interest	(19.4)	(15.8)	
Profit before tax	**311.1**	**309.4**	**+0.5%**
Taxation	(56.9)	(57.2)	
Profit after tax	**254.2**	**252.2**	
Earnings Per Share	**185.6p**	**176.9p**	**+4.9%**
Ordinary dividends per share	55.0p	53.0p	+3.8%

[3] Full price sales are VAT exclusive sales, excluding items sold in our mid-season and end-of-season Sale events and our Clearance operations.
[4] Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 3 of the financial statements). Prior year total sales have been restated, refer to Appendix 1.
[5] This line includes: NEXT Sourcing external sales, Franchise and Lipsy non-NEXT business.
[6] Prior year statutory revenue has been restated by £14.7m to reflect the transition to IFRS 15; these IFRS 15 adjustments did not impact total or full price sales, refer to Appendix 1.
[7] Prior year profit by division has been reclassified, refer to Appendix 1. Group profit remains as reported.

CHANGES TO THE PRESENTATION OF OUR DIVISIONAL RESULTS

We have made a number of changes to the way we present the performance of the individual divisions within NEXT. The aim is to give a clearer picture of the underlying economics of the Group.

NEXT Finance

NEXT has a significant Finance business which currently provides £1.1bn of credit for customers to purchase our products online and in our stores. In the past we have consolidated the Finance business into our Online business for reporting purposes. In order to give greater clarity on the underlying performance of both the Finance business and Online (product) business, we are now reporting these separately.

Finance revenue represents the interest charged to our customers on their credit account balances. Finance profit includes all associated costs including administrative costs, financing and bad debt. The cost of funding our Finance business is calculated on the basis that the Group lends all funds to NEXT Finance and charges an interest rate equivalent to the Group's average cost of borrowing.

Classification of Lipsy Sales

In January 2018 the lipsy.co.uk website was closed and all Lipsy online sales are now made through the next.co.uk website and reported through the NEXT Online business within LABEL. We have restated last year's sales and profit to show lipsy.co.uk sales in NEXT's Online numbers so that comparisons can be made on a like-for-like basis. If we did not do this NEXT's Online reported sales growth would be artificially inflated.

For a summary of all prior year sales and profit reclassifications refer to Appendix 1.

NEXT RETAIL

FIRST HALF PERFORMANCE - SALES AND PROFIT

Full price Retail sales were down -5.3%, this was +1.7% ahead of our initial budget for the first half. Total sales, including markdown, reduced by -6.9%. Net new space contributed +0.7% to total sales growth. Profits reduced by -23.0%, driven mainly by the dis-economies of scale caused by declining like-for-like[8] sales.

£m	July 2018	July 2017[9]	
Total sales	925.1	993.2	- 6.9%
Operating profit	73.2	95.1	- 23.0%
Net margin	**7.9%**	**9.6%**	

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

Net margin on total sales to July 2017 - restated[9]		**9.6%**
Bought-in gross margin	Improved underlying bought-in gross margin added +0.2% to margin.	**+0.2%**
Markdown	Stock for Sale was down -23% with markdown sales down -19%. The combination of improved clearance rates and the increase in the participation of full price sales increased margin by +1.1%.	**+1.1%**
Store payroll	Increased rates of pay reduced margin by -0.3% but this was more than offset by productivity initiatives.	**+0.1%**
Store occupancy	Falling like-for-like sales increased occupancy costs as a percentage of sales. Underlying rental inflation was negligible at +0.4%.	**- 1.7%**
Warehousing & distribution	Falling sales increased costs as a percentage of sales.	**- 0.5%**
Central costs	Central costs have reduced margin due to (1) falling sales and (2) increased staff incentives.	**- 0.9%**
Net margin on total sales to July 2018		**7.9%**

Based on our central guidance, we expect Retail net margins for the full year to reduce by a similar amount to the first half, falling from 12.7% to around 11%.

[8] Like-for-like sales is the change in sales from stores which have been open for at least one year.
[9] July 2017 operating profit and net margin were restated in the second half of last year to more accurately reflect Online costs incurred by our Retail business. The result was an additional £5m recharge from Retail to our Online business, refer to Appendix 1.

RETAIL SPACE

In March 2018 we forecast that NEXT Retail space would increase by a net 100,000 square feet in the year. Since then we have decided to close seven of our Clearance stores at the end of their leases. This decision is in response to (1) lower levels of Sale surpluses and (2) the success we are having clearing surplus stock online. In addition, we will close one more mainline store than expected and the opening of one large mainline store has been delayed to early next year. As a result, we now expect our trading space to increase by 42,000 square feet in the year. The table below sets out the forecast change in space for the full year. We anticipate that (subject to lease renewal negotiations) we will marginally increase our trading space in 2019/20.

	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
January 2018	**8,029**	**242**	**8,271**
New mainline	+154	+64	+218
Mainline closures	- 109	- 2	- 111
Clearance closures	- 65	-	- 65
January 2019 (e)	**8,009**	**304**	**8,313**
Change in square feet	- 20	+62	+42
Change	- 0.2%	+25.8%	+0.5%

New space

Branch profitability[10] of the portfolio opened or extended in the last 12 months is forecast to be 21% of VAT inclusive sales. Payback on the net capital invested is expected to be 25.5 months, which is marginally beyond our internal payback hurdle of 24 months and reflective of the difficulty in predicting new store performance in the current environment.

Closures

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

	No. of stores	Branch profit £m	Branch profit %
Mainline closures	15	3.2	13%
Clearance closures	7	2.2	15%

The fifteen mainline stores which closed made an average branch profit of 13% (before central overheads). We would not normally actively seek to close stores making a 13% net margin. However, these stores were at the end of their lease and, in the current environment, we believed it was unwise to make a new long-term commitment to these shops at this level of profitability.

Over the last 12 months, following most store closures, we have seen an encouraging amount of sales transfer to nearby NEXT stores. On average this has been around 20% of the sales lost from the closing stores. It is too early to tell whether this level of transfer will be sustained or if it is indicative of future closures. If it is, it will mitigate much of the profit lost from store closures going forward.

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

Lease Renewals

This year 33 stores reach their lease end and we have either renewed or are actively negotiating the potential renewal of these stores. The table below summarises the reductions in occupancy costs we expect to achieve where we are likely to renew our leases in the current year.

33 store renewals 2018/19 (e) £m	**Before renewal**	**After renewal**	
Rental costs[11] (before concession income)	10.0	7.2	- 28%
Concession income	-	- 0.4	
Net rent	**10.0**	**6.8**	**- 32%**
Net rent/sales (VAT inc.)	9.1%	6.2%	
Capital contribution to be spent on store upgrade		£4.5m	
Average lease term[12]		5 years	
Average branch profitability (before central overheads)		26%	

Future lease renewals

There are a further 25 stores reaching the end of their leases this year; these will either be held over at the passing rent (pending negotiation) or will be closed.

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

- A store is highly profitable (e.g. making >20% branch profit) and the lease commitment is not too onerous (i.e. up to 5 years)
- Where store profitability is low (e.g. 5%-20%) but the renewal period is very short (i.e. 6 to 48 months)
- Where store profitability is low (<15%) and the landlord is content for us to hold over at the existing or reduced rent. Holding over means both parties have the option to terminate the lease at will. This comes with the risk that we may have to vacate the shop at any time

Concessions

We now operate 164 concessions within our stores. Currently, our concessions are mainly cafes, travel operators and card & stationery shops. We continue to trial concession concepts in a number of our stores and expect to increase both the number and variety of concessions within our shops. In addition to mitigating our rent, the aim of concessions is to provide our customers with additional reasons to visit our stores.

This year we expect to increase annualised concession income by £3.5m, from £8m to £11.5m. The space occupied by concessions is forecast to increase by +26% to 304,000 square feet representing 3.7% of our total trading space.

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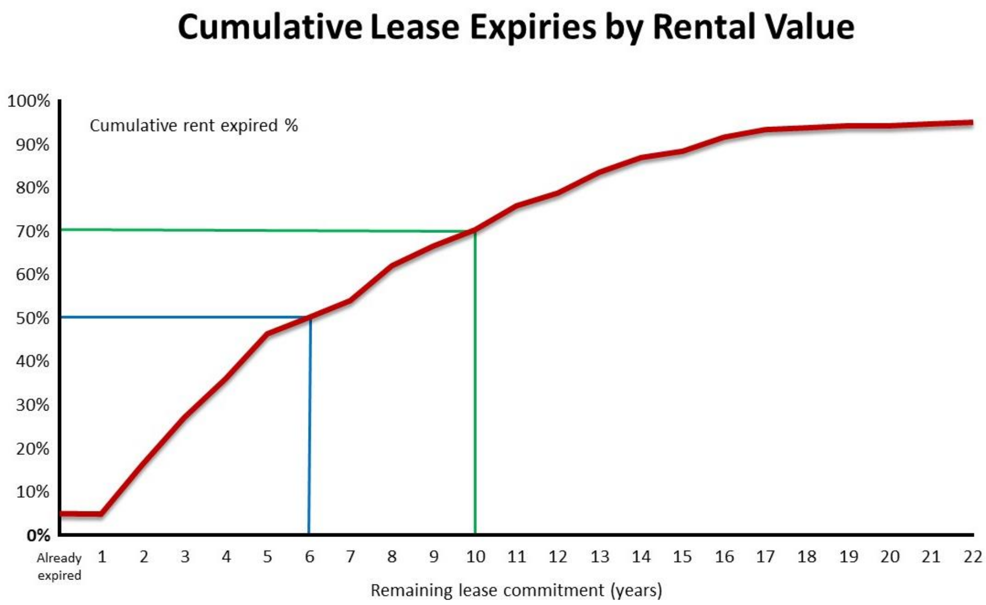
[11] Rental costs include the release of any capital contributions, over the term of the lease, which will not be used to refit the stores being renewed. Excluding the release of surplus capital contributions forecast rent would have decreased by -24%.

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

PORTFOLIO PROFITABILITY AND LONG TERM LEASE COMMITMENTS

Lease Commitment Profile

The average lease length remaining (to the nearest break clause) on our current portfolio of stores is just over 6 years and 70% of our rental liabilities will have expired within the next 10 years. The expiry profile of our store portfolio's lease commitments is set out in the graph below.



In our last Full Year Statement we modelled the effect declining like-for-like sales might have if they were to persist at -10% for the next fifteen years. So far this year our Retail sales decline has been better than that scenario, so we see no reason to re-issue or revise that model which remains a worst-case scenario.

Portfolio Profitability

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

The table below summarises our store portfolio in different profitability bandings; this summary assumes we perform in line with our central guidance, which is for Retail full price sales to finish the year down -6% (see sales guidance on page 41). As can be seen, by the end of the year 92% of our stores, accounting for 95% of turnover, are forecast to make more than 10% branch profit (before central overheads).

	January 2019 (e)	
Branch profitability	**% of stores**	**% of turnover**
>20%	64%	64%
>15%	82%	85%
>10%	92%	95%
>5%	96%	98%
>0%	98%	99%

MANAGING RETAIL COSTS

The management of costs remains a huge focus for our Retail teams. In the first half we were able to mitigate cost of living increases and the loss of economies of scale inherent in falling like-for-like sales through efficiency measures. In the current year this is being achieved mainly through a combination of the following:

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

As usual, cost savings have come from a large number of small initiatives rather than any single project. A good example is the introduction of RFID enabled hand held terminals which are expected to reduce the cost of in-store stock file management by £800k in the year.

We anticipate that Retail will save around £5m in the current year as a result of these and other endeavours. The management of costs and the search for innovative ways to operate more efficiently remain priorities for our Retail teams.

DEVELOPING OUR STORES AS PART OF OUR ONLINE PLATFORM

For many years NEXT stores have been an important part of our delivery service. Currently, around 50% of our UK Online orders (by number of orders) are fulfilled through our shops. This represents around 38% of our UK Online sales by £ value. Since January we have made further improvements to the integration of our Retail and Online businesses. In our last Full Year Statement we talked about some of these initiatives. The aim is to maximise the value of the stock we have within both businesses and enhance the way our stores work with our Online business to create a more unified service Platform for our customers and third-party brand partners.

Use of Retail Stock to Service Online Demand

We have made more of our Retail stock visible and available to order through our website, when those items are not immediately available in our warehouses. We are now servicing 4% of our Online sales from stock recalled from our Retail stores. We are looking to make more of our Retail stock available in this way and increase the cost efficiency with which we can recall, consolidate and distribute these items. As much as possible, we aim to pack and process these orders in our regional depots, alleviating capacity pressures in our central warehouses.

Currently these items have a delivery promise of up to 4 days; by November we hope to improve this promise to 48 hours.

Same Day Click-and-Collect

In selected stores we have launched a same day **click-and-collect** service for stock that is already available in a customer's local store. Customers can reserve and pay for stock online and get confirmation that their stock is ready to collect within around fifteen minutes. We do not anticipate that this will be a significant volume of sales, though it may be more important in the run up to Christmas when customers are most enthusiastic to secure specific items as gifts.

Transferring Best Selling Online Stock into Retail Stores

Until recently the vast majority of stock movements between our Retail and Online businesses have involved taking stock from our shops to service Online demand. As the depth and breadth of our Online ranges grow, a smaller percentage of our total offer is available in store. We are currently trialling sending over-performing NEXT Online stock to stores that have a high probability of selling that item. The potential downside is limited because, if required, the item can still be ordered Online and serviced from store stock.

The aim is to bring some of the dynamism of an Online offer to our Retail stores. It will take some time to understand whether the economics of this idea make sense. It will then take more time to master the art of deciding what stock to send to which stores, so it is very early days for this concept.

Stores as Point of Collection for Third-Parties

Finally, we are investigating whether our stores can serve as delivery points for **third-party** non-competing businesses. We expect to undertake a meaningful trial of this idea within the next six months to see if the revenues involved are enough to make the exercise worthwhile. We will also evaluate whether any increase in footfall contributes to our Retail sales.

The key to making the above initiatives successful will be our ability to deliver operational excellence in our stores and regional depots. This will require a combination of reliability and cost effectiveness; we are developing systems to improve performance on both fronts.

NEXT, 120 Oxford Street, London

NEXT ONLINE

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

- Online marketing
- LABEL
- Overseas
- Warehousing, infrastructure and capex

FIRST HALF PERFORMANCE – SALES, PROFIT AND CUSTOMERS

Sales and Profit Summary

Full price sales grew by +16.0%, with total sales growth (including markdown) of +16.8%. (In our August Trading Statement, we reported Online sales *including* Finance interest income, this gave the slightly lower number for full price sales growth of +15.5%.) Net margin increased to 18.3%.

£m	July 2018	July 2017[13]	
Total sales	892.3	764.3	+16.8%
Operating profit	163.3	134.8	+21.2%
Net margin	**18.3%**	**17.6%**	

Sales by Division

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

Full price sales growth	£m	% var	Q1	Q2
NEXT Brand UK	+47	+11.5%	+15.5%	+7.1%
LABEL UK	+30	+24.2%	+27.7%	+20.7%
Total UK	***+77***	***+14.4%***	***+18.2%***	***+10.4%***
Overseas	+32	+22.0%	+21.7%	+22.5%
Total full price sales	**+109**	**+16.0%**	**+19.0%**	**+12.6%**
Total including NEXT Finance	*+120*	*+15.5%*	*+18.1%*	*+12.5%*

We have included the quarterly performance as we believe that the second quarter provides a better indication of likely future performance for the second half. In the first quarter, the NEXT UK figures were flattered by ranging errors in the previous year.

[13] July 2017 total sales, operating profit and net margin have been restated to separately report the Finance business, refer to Appendix 1.

Profit by Division

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

	Profit £m	Increase £m[14]	Net margin %
NEXT Brand UK	105.4	14.2	19.6%
LABEL UK	27.9	8.9	16.0%
Overseas	30.0	5.4	16.7%
Total Online profit	**163.3**	**28.5**	**18.3%**

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

Margin Movement Analysis

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

Net margin on total sales to July 2017 – restated[14]		**17.6%**
Bought-in gross margin	Improved underlying NEXT bought-in gross margin added +0.2% to margin. Third-party branded sales, which have a lower bought-in gross margin, reduced margin by -1.3%.	**- 1.1%**
Markdown	Stock for Sale was down -12% but markdown sales only fell by -6%. The combination of improved clearance rates and the increase in the participation of full price sales increased margin by +0.9%.	**+0.9%**
Warehousing & distribution	Growth in overseas sales, which have a higher cost of distribution, eroded margin by -0.4%. Reduced delivery income from next**unlimited** has reduced margin by a further -0.3%. Other operational costs have increased as we have begun to experience capacity constraints in some of our warehouses (see Focus on Warehousing, Infrastructure and Capex on page 21), reducing margin by -0.2%.	**- 0.9%**
Catalogues & photography	Production of fewer catalogues has increased margin by +1.0%. Photography savings have increased margin by +0.4%.	**+1.4%**
Marketing & systems	In the first half marketing and systems costs have increased on last year but both have risen less than sales growth, resulting in an improvement in margin. We are accelerating marketing and systems investment in the second half and expect the full year effect of these cost increases to reduce margin by -0.3%.	**+0.5%**
Central costs	Central costs have reduced margin due to increased staff incentives.	**- 0.1%**
Net margin on total sales to July 2018		**18.3%**

Based on our central guidance we expect Online net margin for the full year to be around 18.5%, in line with last year.

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

Customer Base

Average active customers[15] increased by +6% to 5.2 million, driven by the growth in Overseas and UK Cash Customers (those who do not use our credit account, next**pay**, when ordering). UK Credit Customers increased by +1%. The table below sets out the growth in the respective parts of our customer base.

Average active customers (m)	July 2018	July 2017	
UK Credit	2.52	2.49	+1%
UK Cash	1.58	1.50	+6%
Total UK	**4.10**	**3.99**	**+3%**
Overseas	1.08	0.90	+19%
Total	**5.18**	**4.89**	**+6%**

FOCUS ON MARKETING

Growth in the UK has been accelerated by the following:

(i) Improved and extended digital marketing

(ii) next**unlimited**

(iii) Improved website performance and customer journey

Each is dealt with in the paragraphs below.

(i) Digital Marketing

In March we outlined some of the measures we are taking to improve our online marketing. Improvements have centred on the adoption of new technologies that enable us to better target new and existing customers with the products and services they are most likely to want. We are also deepening our relationships with search engine and social media providers in order to maximise the benefits their products can bring to our marketing campaigns. In addition, we have rebalanced our digital spend to invest more in marketing on mobile devices.

Increase in Marketing Expenditure

The table below sets out our forecast investment in marketing spend for the full year compared to last year. We plan to increase our overall marketing expenditure for our Online business by +13%. Within this number, the budget for digital marketing has increased by £16m to £28m. We have added a line showing expenditure on creating, printing and distributing catalogues which demonstrates that the additional expenditure on marketing has been offset by catalogue savings.

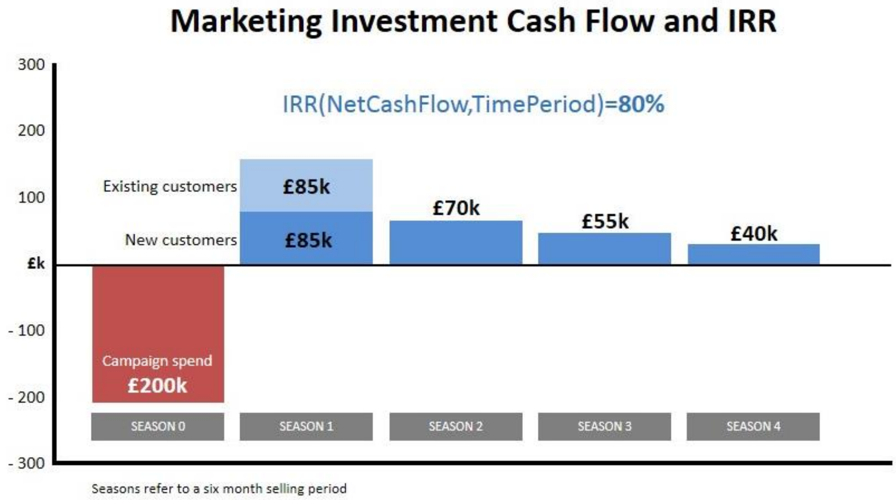
Marketing spend £m	Jan 2019 (e)	Jan 2018	
Digital marketing	28	12	+125%
Direct mail, print advertising & TV	11	23	- 51%
Personnel	11	9	+19%
Overseas marketing	8	7	+17%
Total marketing expenditure	**58**	**51**	**+13%**
Catalogue creation and printing spend	*92*	*103*	*- 11%*
Total marketing and catalogues	*150*	*154*	*- 3%*

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

Online Marketing Internal Rates of Return (IRR)

For each of our marketing campaigns we estimate an Internal Rate of Return (IRR) on cash invested in each programme. IRRs are calculated from the net cash flows resulting from each advertisement. The outflows consist of the creative and media costs, the inflows are the profit from the incremental sales generated from the advert. It is important to point out that there is a degree of uncertainty as to whether sales prompted by an advert are genuinely incremental as some adverts might have merely pulled forward a sale we would have made anyway. We generally assume that around 10% of sales prompted by advertising to existing customers and 40% of sales to new customers are incremental. Overall the returns to date have been excellent, with IRRs in the first half being in excess of 75%.

The graph below gives an example of the cash flows generated by one campaign. If the campaign attracts new customers we estimate the lifetime value of the cash flows generated by that cohort of customers. This is why the cash flows persist for more than one season in the example.



(ii) next**unlimited**

We have been successful in promoting our next**unlimited** service which allows customers to have unlimited deliveries and collections to and from their home for £20 per annum. We currently have around 380,000 next**unlimited** customers and expect the number to continue to grow in the current year. It is more expensive to service next**unlimited** customers as they order more frequently in smaller quantities and return a greater percentage of their orders. However, to date, these costs are more than offset by the overall increase in sales to these customers.

(iii) UK Website Experience

Within the last six months we have continued to make many small improvements to the customer journey on our website; with enhancements to our home pages, selling pages, search results, registration and checkout. No individual improvement is particularly important on its own, with each change only delivering small (but usually measurable) gains. However, we believe that the overall effect has been to deliver a significantly better customer experience online.

We are currently rolling out a new search engine which uses Artificial Intelligence to select and rank products, this is probably the most important change we will make in the current year. The next step in developing the search function is to see if we can successfully personalise search results; we aim to test this concept within the next six months.

We have further improvements planned for the rest of the year, including the introduction of personalised home pages which we are currently trialling. If successful, this will be rolled out over the coming months.

FOCUS ON LABEL

Sales Performance

LABEL has had a strong first half with full price sales up **+24.2%.** Growth has been driven by:

- Increasing sales with our existing partner brands, where we have successfully increased our breadth of offer and improved stock availability
- The introduction of new partner brands

We continue to add brands to our portfolio and will be launching a number of important new partners during the second half of the year. We have also significantly increased the offer available from third-party homeware brands and, during the second half of the year, we anticipate a step change in our third-party Beauty offer.

Commission and Wholesale

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

Full price sales £m	**July 2018**	**July 2017**	
Wholesale	74	63	+19%
Commission	78	59	+30%
LABEL full price sales	**152**	**122**	**+24%**

Our aim is to be our commission partners' most profitable online route to market, and to this end we are working to improve our operating model to make it easier and cheaper to move stock onto our Platform. We have simplified the process for stock intake, photography, sales reporting and recall. These developments to our stock and logistics systems will enable brand partners to more directly manage their stock into our warehouses and onto our Platform.

We are planning to trial further enhancements to our Platform capabilities over the coming months, including a trial to sell items that are only available in our partners' warehouses. Our aim is that these items will then be transferred from our partners' warehouses and distributed through our Platform's network of couriers and stores. The key here will be to ensure that the process is cost effective and that we can fulfil the orders in good time.

LABEL Sales and Profit History

The table below sets out the last four years' sales, profits and net margins for LABEL, along with our estimate for the current year. In January 2018, the lipsy.co.uk website was closed and we now report all Lipsy online sales via next.co.uk in LABEL. Historical sales and profit taken on the lipsy.co.uk website have been included in this table for comparison.

£m	Jan 2015	Jan 2016	Jan 2017	Jan 2018	Jan 2019 (e)
Total sales	151	187	215	298	370
Operating profit	21	23	35	51	63
Net margin	**14%**	**12%**	**16%**	**17%**	**17%**
Net margin including all central overheads					*16%*

For the full year, we expect full price sales to be up +23% and net margin to remain in line with the previous year at 17%. Once we allocate LABEL its full share of central overheads, reported margin is forecast to be 16%.

FOCUS ON OVERSEAS

Analysis of Overseas Online Sales

Full price sales for the first half were up +22% and up +19% on a constant currency basis. Total sales, (including markdown sales) were up +24%. The vast majority of our sales Overseas are of NEXT branded stock.

Overseas sales are achieved through our own website nextdirect.com and via third-party websites. Growth by each channel is set out in the table below. Third-party website sales have been particularly strong in the first half as we continue to enhance our product offer with existing partners.

Full price sales £m	July 2018	July 2017	
nextdirect.com	154.3	128.0	+21%
Third-party websites	21.2	15.8	+34%
Full price Overseas sales	**175.5**	**143.8**	**+22%**

For the full year, we expect full price sales on a constant currency basis to be up +20%, and in Pounds up +20%.

Online Overseas Profit History and Outlook

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

£m	**Jan 2015**	**Jan 2016**	**Jan 2017**	**Jan 2018**	**Jan 2019(e)**
Total sales	163	197	234	295	*355*
Operating profit	30	31	46	65	*69*
Net margin	**18%**	**16%**	**20%**	**22%**	***19%***
Net margin including all central overheads					*16%*

Profits have not grown as fast as sales for the following three reasons:

- The fastest growing product areas have higher customer returns and so are expected to lower net margin by around £3m; we expect this trend to continue
- This year we incurred £1m closure costs for our China operation
- The prior year benefited from a one-off duty provision release of £4m

As a result, our net margins are expected to reduce from 22% last year down to 19%. Once we allocate Overseas its full share of central overheads, including Product teams, net margins are forecast to be 16%.

Drivers of Overseas Growth

The following paragraphs detail some of the improvements we have made to our Overseas business. These paragraphs come with a caveat: we believe that some (if not much) of the improvement in sales we have experienced has come organically as worldwide customers increase their use of the internet and find our products through word of mouth.

Mobile development

Until May last year all of our Overseas websites were designed for the desktop, so customers who used mobile devices to shop NEXT had to view it as a desktop site. This was far from ideal, particularly as in many overseas territories the participation of mobile devices is high.

We have now developed mobile sites for 24 of the 70 overseas countries we trade in. Between them they account for 90% of Overseas orders taken on our own websites. By the end of this year we plan to make mobile sites available in 10 more countries which will mean that around 97% of Overseas sales will be in countries with access to a mobile site.

Breadth of Offer

Traditionally many of our Overseas customers have limited their orders to only one of our product categories. We are now seeing Overseas customers increase the breadth of product they are willing to buy from NEXT. We believe that this trend has, to some extent, been encouraged by the addition of a broader offer of our merchandise on third-party sites in overseas territories.

We are also seeing some benefit from the addition of warm weather ranges to our site in the UK's winter season. These ranges were introduced as a holiday shop offer for UK customers travelling overseas in the winter but they have also served to boost sales in the Southern Hemisphere and other warmer countries.

Other Improvements to our Overseas Sites

We have also built a new Overseas team (based in the UK) to undertake a programme of constant improvement to our Overseas sites. There are a huge amount of small improvements that can be made to tailor the visibility (search engine optimisation), website layout, search results, registration, checkout, payment options and delivery service in each country. As is the case in the UK, no individual improvement has made more than a fractional contribution to growth, but we believe that the sum total is contributing to the growth we are experiencing overseas.

FOCUS ON WAREHOUSING, INFRASTRUCTURE AND CAPEX

The recent acceleration in our Online sales has taken some of our warehouses close to some of their capacity limits. Whilst we have been able to operate effectively and maintain service levels, the operation of these warehouses at or near capacity has increased our operating costs.

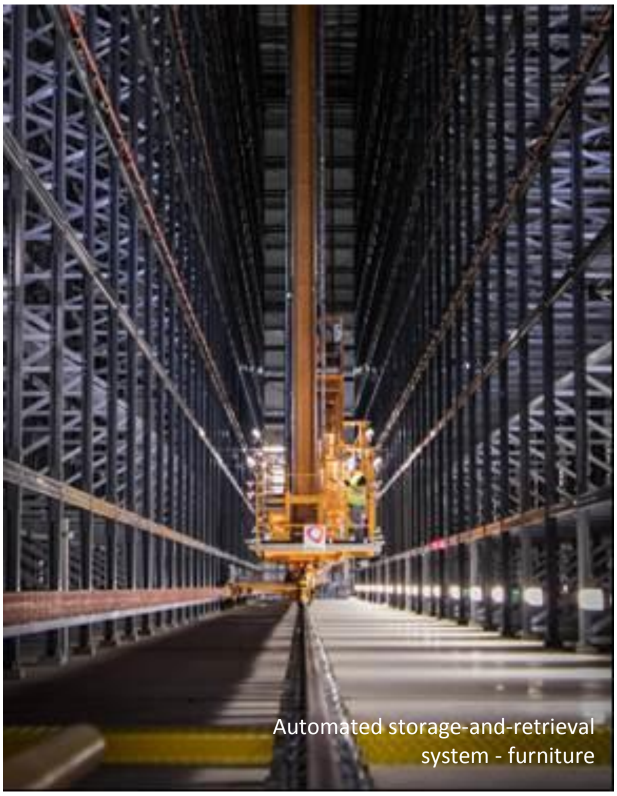
In order to continue growing our Online business we plan to make a number of significant investments in our warehousing and other online infrastructure over the next four years.

In the current year we will commence the following projects:

- A £30m automated storage-and-retrieval-system (ASRS) for returns from customers
- A £15m project expanding our forward picking areas for boxed stock

These investments form part of a four year £200m programme to upgrade our warehousing infrastructure. We do not need to commit to all this capital expenditure at this time, so if sales growth does not materialise we will be able to defer or cancel much of this planned investment. We are currently committed to £70m (35%) of the programme.

Our warehousing is modular, spread over five major sites. So it can be extended piece by piece and does not require any significant step change in annual capital expenditure.



Automated storage-and-retrieval system - furniture

The Gantt chart below sets out our expectations for major projects, costs and timescales. The terminology needs a little explanation and the preceding table gives a brief glossary of terms.

Term	Definition
Boxed stock	Stock that is stored in a standard carton.
Hanging stock	Stock that is stored on hangers.
Palletised stock	Bulky, irregular items delivered and stored on wooden pallets.
Bulk storage	Storage in dense, space efficient, automated crane systems from which individual items cannot be picked. Stock can only be retrieved in whole boxes or complete pallets and is moved into forward locations.
Forward locations	Stock is stored in picking aisles that can be accessed by warehouse operatives so that individual items can be picked for dispatch to customers.
Returns storage	Storage and picking system for stock that is returned from customers, after refurbishment.
Sortation	Once items have been picked they are sorted to collate customer orders and prepared for dispatch to the correct depot.

Project	**2018**	**2019**	**2020**	**2021**	**Cost £ (e)**
Boxed returns storage (ASRS)					30m
Boxed forward storage (phase 1)					3m
Boxed forward storage (phase 2)					15m
Boxed bulk storage					38m
Boxed sortation (phase 1)					3m
Boxed sortation (phase 2)					6m
Boxed sortation (phase 3)					8m
Hanging storage and sortation					23m
Hanging bulk storage					3m
Palletised returns storage					2m
Palletised forward storage (phase 1)					8m
Palletised forward storage (phase 2)					5m
Regional depot throughput					5m
Ongoing vehicle fleet upgrades					7m
Other projects					44m
Total investment £	**40m**	**85m**	**45m**	**30m**	**200m**

Counting the Cost of Capital of Warehousing Investment

We estimate that our programme of warehouse investment will increase our Online unit sales capacity by 75%. This would allow us to increase annual Online sales by around £1.5bn. We believe that this will give plenty of headroom to service our most aggressive sales projections. It is important to stress this is *not* our central forecast for sales growth to January 2022 (so analysts please do not plug this number into your models!).

Likely Cost of Depreciation and Margin Impact of New Investment

The £200m investment gives a clear indication of the capital costs of future Online growth. The numbers imply we will need to invest 13p (£200m ÷ £1.5bn) for every £1 of additional annual sales capacity. The depreciation on warehouse equipment averages 12 years, so depreciation would be around 1.1% (13p ÷ (£1 X 12 years)). Our current rate of warehouse depreciation is 0.8% so we do not anticipate that the new investment will have a material impact on the net margins of the business.

In terms of the Group's Return on Capital Employed, the investment in new warehousing capacity looks set to provide a very high return. Average net **cash**[16] margin Online is 19% (excluding interest income). So every 13p spent on warehousing accommodates annual sales generating 19p of cash profit per annum. Subject to the Group achieving its long term central sales scenario, we estimate the IRR on this investment would be more than 75%. This is not quite the whole picture as we are likely to invest in other capital items (such as systems and office space) to facilitate Online growth. Nonetheless, even accounting for this ancillary capital, returns would remain high.

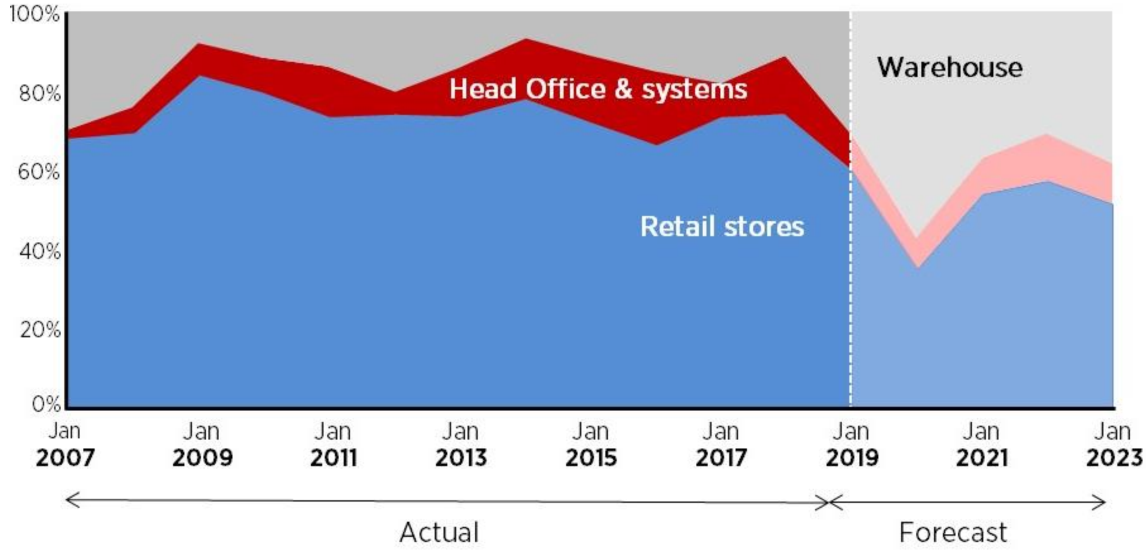
Warehouse Capex in the Context of Total Group Capex

The investment we plan in warehousing and logistics is likely to be offset by a reduction in the amount we invest in opening new Retail space. The two graphs below put our expected future capex in the context of the Group's capital investment history.

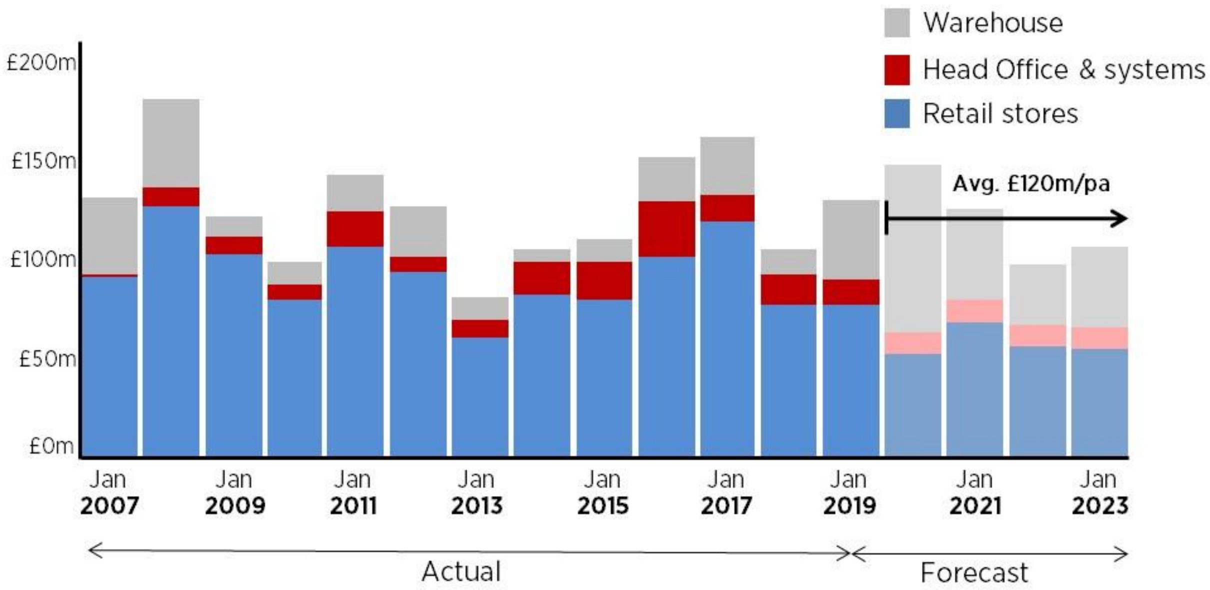
The first graph shows the participation of stores, systems and warehousing as a percentage of our total capital expenditure. The second graph shows the same information in Pounds. The two graphs paint a very clear picture: going forward, the capital consumption of the Group is likely to remain unchanged.

[16] Net cash margin is defined as operating profit less the cost of depreciation.

Participation of Capital Expenditure by Category
History and Outlook



Pound Sterling Value of Capital Expenditure by Category
History and Outlook



NEXT FINANCE

For the first time we are separating out the performance of our Finance business from our Online business. It is an important business in its own right, with £1.1bn of outstanding consumer debt and we anticipate that it will contribute around £123m profit to the Group in the current year.

NEXT FINANCE PROFIT AND LOSS ACCOUNT EXPLAINED

The performance of our Finance business is best understood by looking at a full year's performance and our estimate for the current year is set out in the table below. Each line is then explained beneath.

£m	Jan 2019 (e)	Jan 2018	
*Note of next**pay** credit sales*	*1,688*	*1,563*	*+8.0%*
1) Interest income	252	223	**+12.8%**
2) Bad debt charge	(51)	(37)	+36.0%
3) Overheads	(38)	(33)	+13.0%
Profit before cost of funding	**163**	**153**	+7.0%
4) Cost of funding	(40)	(41)	- 0.3%
Net profit[17]	**123**	**112**	**+9.7%**
5) Average debtor balance	£1,141m	£1,014m	+12.6%
6) ROCE (after cost of funding)	10.7%	11.0%	

Term in P&L	Definition
Interest income Line 1	Interest income is the gross interest billed to next**pay** customers, before any deduction for unpaid interest on bad debt. It is forecast to grow broadly in line with the average debtor balances (line 5).
Bad debt charge Line 2	A charge is taken against all our outstanding debt. This consists of a charge on the debt owed by customers who have defaulted. In addition, a provision is made for potential default against our good debt balance. The bad debt charge is determined by (a) the size of our outstanding debtor balance and (b) the default rate we anticipate in any given year. So any one of the following three factors will increase the bad debt charge: (i) Growth in the closing balance driven by an increase in *credit sales* (ii) Growth in the closing balance driven by an increase in *payment days* (the time taken to pay down a balance) (iii) Any change in the anticipated *bad debt rate* In our central guidance we anticipate that all three will contribute to an increase in this charge. Credit sales are forecast to rise by +8% (compared with +11% in the first half), payment days are expected to rise by +3% (+6% in the first half) and we anticipate an increase in the bad debt rate of +1.0% to 4.3% of the average debtor balance. This is slightly higher than the exceptionally low levels of recent years (see page 27), which mirrors the conditions in the wider credit environment[18].

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

[18] Bank of England Credit Conditions Survey 2018 Q2, 12th July 2018.

Term in P&L	Definition
Overheads Line 3	Covers all the administrative costs associated with operating the Finance business including call centres and statements etc.
Cost of funding Line 4	For the purpose of these accounts we have assumed that the entire debtor balance is funded by the NEXT Group, as if there were an inter-company loan in place. The interest charged to the Finance business has been calculated by applying the average Group interest rate (i.e. the borrowing rate of the NEXT Group) to the average outstanding debtor balance. It is important to note that the Group's debt is less than our total debtor balance and this gap means that the Group earns a profit on some of the money it lends to the Finance business. The average Group interest rate this year is 3.5% compared with 4.0% last year. This is due to a larger proportion of this year's debt being on a floating interest rate. Next year we anticipate a rise in interest costs as base rates begin to impact on our cost of borrowing. To account for this cost and the recent increase in bad debt rates we will increase our APR from November 2018 by 1% to 23.9% for existing customers.
Average debtor balance Line 5	The average amount of money owed by all next**pay** customers less any provision for bad debt (i.e. the sum total of balances we expect to be paid averaged across the year).
Return on Capital Employed Line 6	The net profit divided by the average debtor balance (line 5).

Finance Half Year Sales and Profits

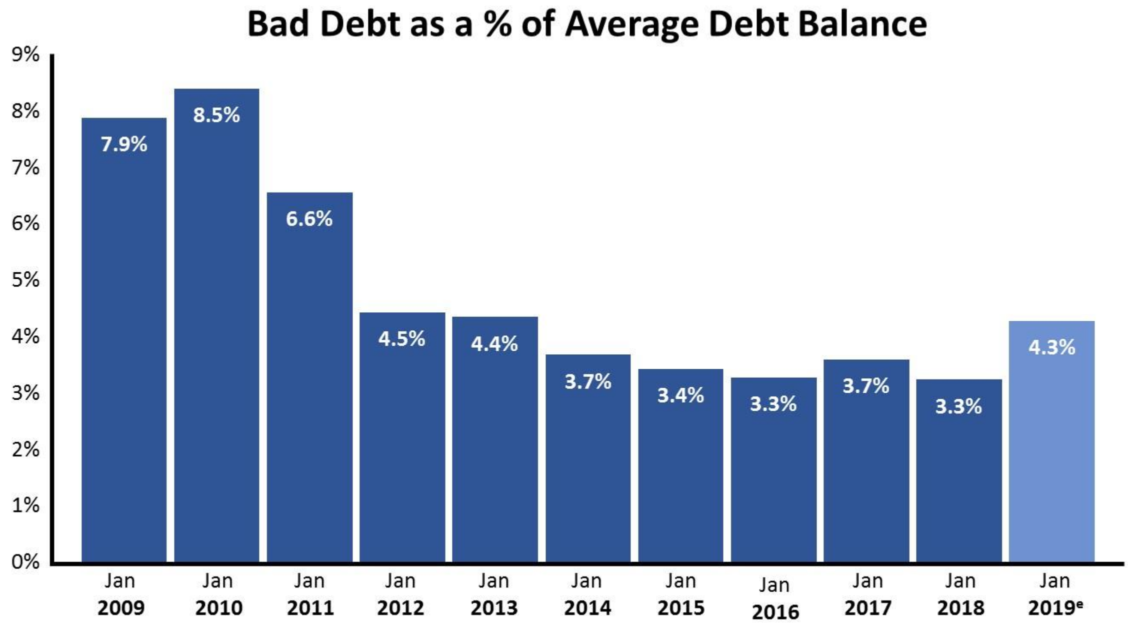
Finance profit in the first half has not grown in line with interest income due to an increase in the cost of bad debt.

In the second half of last year we started to experience customers paying off their balances more slowly and this continued into the current financial year. There is an interest income benefit resulting from this behaviour but it is also a leading indicator for increasing bad debt rates. The effect of an increased underlying bad debt rate gives rise to a £9m one-off increase in the bad debt charge in the first half of the year. However, we believe this effect has now annualised and we do not expect the same step change to occur in the second half (see forecast for full year Finance sales and profits above).

£m	July 2018	July 2017	
*Note of next**pay** credit sales*	*797.4*	*716.5*	*+11.3%*
Interest income	122.0	108.5	**+12.5%**
Bad debt charge	(25.8)	(15.0)	+71.5%
Overheads	(18.5)	(16.2)	+14.5%
Profit before cost of funding	**77.7**	**77.3**	+0.5%
Cost of funding	(19.8)	(18.6)	+6.5%
Net profit	**57.9**	**58.7**	**- 1.3%**
Average debtor balance	£1,110m	£971m	+14.3%

Bad Debt History

The following chart shows the cost of bad debt, net of recoveries and VAT, as a percentage of our average debtor balance since the year ending January 2009. This year's rise should be taken in the context of the exceptionally low bad debt rates experienced in the last five years.

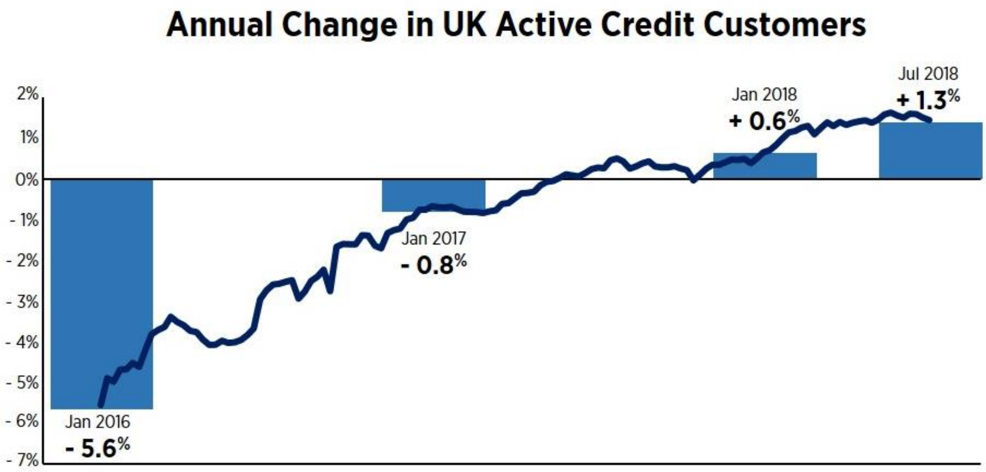


IFRS9

This is the first year of reporting using the new IFRS 9 "Financial instruments" accounting standard (see Appendix 1). We have not seen a material impact from the new standard and our forecast provision rate on gross debt is similar to last year.

CREDIT CUSTOMER BASE

The chart below shows the annual change in active credit customers since January 2016. As at July 2018, active Credit Customers were up +1.3% on the previous year. This stabilisation of Credit Customer numbers has been driven by the launch of nex**tpay** and its active promotion to our Cash Customer base.



We continue to invest in our credit business to attract new customers and increase credit sales by increasing the flexibility and availability of our credit offer. In Q3 we will be launching two important initiatives with the aim of further increasing the accessibility of credit to our customers:

next**3step**

Our new next**3step** product will be offered to new Credit Customers. This will allow them to spread the cost of all their orders over 3 months in 3 equal payments, without incurring an interest charge. Customers can elect to pay less than the one third payment, but if they do so, the balance becomes interest bearing and operates in a similar way to a normal next**pay** account balance. This credit product therefore gives customers greater flexibility to manage their finances.

next**pay App**

We will shortly be launching a next**pay** smartphone App which will act in the same way as a payment card in our Retail stores. The App will enable customers to go through the credit application process in a structured, responsible and secure way which means we can promote it while they are in our stores. If their application is successful they will be able to make immediate use of this credit facility in our stores and online.

OTHER BUSINESS ACTIVITY

LIPSY

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

£m	July 2018	July 2017[19]	
Sales through NEXT websites (reported in NEXT Online)	52.6	35.4	+48.6%
Sales through NEXT stores (reported in NEXT Retail)	6.0	6.5	- 7.4%
Sales reported through NEXT	**58.6**	**41.9**	**+39.9%**
Other sales (wholesale, franchise and 3rd party websites)	**7.8**	**7.7**	**+1.3%**
Total sales	**66.4**	**49.6**	**+34.0%**
Operating profit (excluding acquisition costs)	**7.6**	**4.4**	**+73.9%**

Lipsy has continued to grow online sales of its own product as well as third-party brands. Third-party branded sales account for 46% of sales compared to 43% in the prior year. Operating profit, including acquisition costs, was £3.5m, up +44% on last year.

For the full year we are forecasting operating profit of around £19m (excluding acquisition costs), an increase of £8m, due to a combination of sales growth (+34%) and cost savings associated with the closure of the lipsy.co.uk website. Operating profit including acquisition costs is forecast to be £11m, an increase of £6.5m on the prior year.

INTERNATIONAL RETAIL AND FRANCHISE STORES

Our franchise partners currently operate 193 stores in 33 countries and we have 10 owned stores in 3 countries (Czech Republic, Slovakia and Sweden)[20]. Revenue and profit are set out below.

£m	July 2018	July 2017	
Franchise income[21]	25.8	27.2	
Own store sales	5.1	5.4	
Total revenue	**30.9**	**32.6**	**- 5%**
Operating profit	**3.0**	**4.1**	**- 26%**

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

[19] July 2017 Lipsy sales have been restated to reflect £4.4m of sales from lipsy.co.uk in the prior year within NEXT Online.
[20] Eire Stores are reported within NEXT Retail.
[21] Franchise income is a combination of royalties or commission added to cost of goods sold to franchise partners.

NEXT SOURCING

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

Sales were up +3% in US Dollars as a result of the increase in NEXT branded product sales. Net margin reduced by -0.3% to 5.6% mainly as a result of a prior year provision release.

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

	July 2018 £m	July 2017 £m		July 2018 USD m	July 2017 USD m	
Sales (mainly inter-company)	264.4	274.8	- 3.8%	359.6	349.0	+3.0%
Operating profit	**14.8**	**16.1**	**- 8.1%**	**20.1**	**20.5**	**- 2.0%**
Net margin	**5.6%**	**5.9%**		**5.6%**	**5.9%**	
Exchange rate	1.36	1.27				

For the full year we expect NEXT Sourcing to make around $40m operating profit, a decline of -5% in Dollars. At our 2018/19 costing rate[22] this would equate to a profit of around £31m in Pounds, down -£2m on 2017/18.

NON-TRADING ACTIVITIES

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

£m	July 2018	July 2017
Central costs and employee share schemes	(11.4)	(8.0)
Property management	4.4	2.9
Foreign exchange	1.8	(0.1)
Associates and joint venture	0.1	0.5
Total	**(5.1)**	**(4.7)**

The increase in central costs relates to the release of a provision for a legal claim in the prior year. The property management profit has increased by £1.5m due to one-off income on two development properties. Foreign exchange gains relate to gains made on derivatives for which we cannot apply hedge accounting.

PENSION SCHEME

On the IFRS accounting basis, our defined benefit schemes have moved from £106m surplus at January 2018 to £163m surplus at July 2018. This increase is primarily due to the change in the discount rate assumption applied to the liabilities of the scheme.

A full actuarial valuation of our defined benefit pension scheme was undertaken as at 30 September 2016. The technical funding position was a surplus of £40m when rolled forward to 30 June 2018.

[22] Details of costing rates can be found on page 37.

COST INFLATION AND COST CONTROL

In the year to January 2019, we anticipate partially offsetting cost increases of £55m with cost savings of £43m. The tables below outline the main contributors to expected cost increases and cost savings in the year. Cost control remains at the heart of the business and we remain determined that cost savings must come through innovation and efficiency, rather than any compromise to our product quality or services.

There have been a number of changes to our forecast cost increases and cost savings since we set out our budget in our Year End Statement in March.

Costs have increased as a result of (i) bad debt rates, (ii) operational cost increases in our warehouses and (iii) increased spending on systems and digital marketing. These cost increases have largely been offset by better than expected clearance rates through both our stores and online.

FORECAST FOR THE YEAR ENDING JANUARY 2019

Cost increases	**£m (e)**
General wage inflation	17
Increase in bad debt rate	9
Investment in Online systems	7
Bonus and staff incentives	6
Net interest cost	5
Warehousing & distribution	4
Occupancy (rates and energy taxes)	4
National Living Wage	3
Total cost increases	**55**

Cost savings	**£m (e)**
Online marketing, catalogues and photography	11
Property savings including fully depreciated assets	9
Lower end-of-season Sale surplus and improved clearance rates	6
Improved performance of our Clearance sales Online	6
Underlying gross margin	6
Retail productivity and cost improvements	5
Total cost savings	**43**

CASH FLOW

Forecast profit generation for the year before interest, tax, depreciation and amortisation is £890m, based on our central guidance. Cash flow after non-discretionary outflows of taxation, interest and working capital is expected to be £649m. After investing in capital expenditure and paying ordinary dividends, but before financing Online customer receivables, the Group expects to generate surplus cash of around £300m.

The table below summarises our estimated cash flows in the year ending January 2019. Of the £300m estimated surplus cash, we have returned £274m via share buybacks in the first half of the year and £26m in the 2017/18 financial year (£1m of the £26m prior year buybacks was held in creditors at the year end and is included in the outflow of cash for the current year). During the first half we have purchased 5.2m shares at an average price of £52.72, reducing our shares in issue at the start of the financial year by 3.6%.

£m	Central guidance Jan 2019 (e)
Profit before Interest, Tax, Depreciation & Amortisation	**890**
Interest	(41)
Tax	(145)
Working capital and other	(55)
Discretionary cash flow	**649**
Capital expenditure	(130)
Investment in associate	(3)
Ordinary dividends	(216)
Surplus cash	**300**
Financing additional Online debt	(90)
Share buybacks from cash generated Jan 2019	(275)
Movement in net debt	**(65)**

INTEREST AND TAXATION

For the full year, we expect the interest charge to be £41m, a £7m increase on the prior year primarily due to higher average net debt and rising interest rates.

Our full year effective tax rate is estimated at 18.3%, a reduction of -0.2% driven by the corresponding reduction in UK corporation tax rate.

INTERIM DIVIDENDS

We are declaring an ordinary dividend of 55p per share, an increase of 2p per share from last year, to be paid on 2 January 2019. Shares will trade ex-dividend from 6 December 2018 and the record date will be 7 December 2018.

CAPITAL EXPENDITURE

In the current year we expect our capital expenditure to be £130m, £26m higher than last year. This increase comes from investment in Online warehouse capacity required to deliver future sales growth. Our capital expenditure forecast for the full year is shown by category in the table below.

£m	Jan 2019 (e)	Jan 2018
Retail space expansion	66	56
Retail cosmetic capex	12	22
Total capex on stores	**78**	**78**
Warehouse	40	11
Head Office infrastructure	5	6
Systems	7	9
Total capital expenditure	**130**	**104**

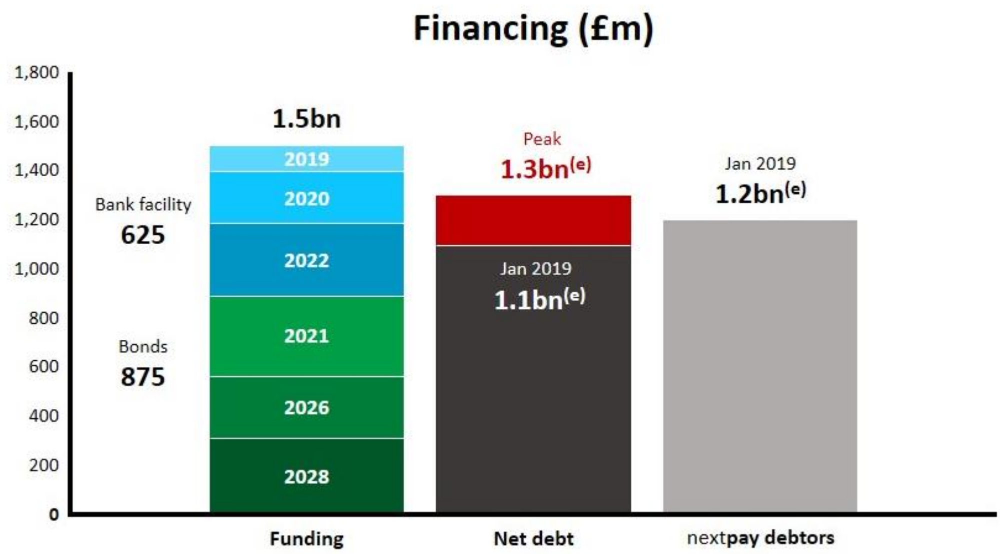
New Retail space remains our biggest investment at £66m. Cosmetic capex of £22m in the prior year included the refit of our Manchester Arndale store which incorporated a number of important concession trials. Cosmetic spend of £12m in the current year has returned to a more normal level.

Warehouse investment of £40m represents a £29m increase on last year. Please refer to page 21 for details of warehouse capital expenditure and longer term projections for Group capex.

NET DEBT AND FINANCING

In the second half of the year we are forecasting continued sales growth from customers using our credit facility, next**pay.** Based on our central profit guidance for the year, we expect next**pay** debtors to increase by around £90m. We will finance this increase through net debt which we expect to increase to around £1.1bn by January 2019, from £1.0bn at January 2018.

Net debt, which peaks in the year at around £1.3bn, is securely financed through a combination of bonds and committed bank facilities. At July 2018 our committed financing amounted to £1.5bn and consists of £875m of bonds and £625m of committed bank facilities.



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

PART 2
OUTLOOK FOR SALES AND PROFIT

This part of the document is divided into two chapters. The first chapter details the challenges facing the retail sector and how these have developed through the year. The second sets out the Group's outlook for sales and profit, including the impact of the structural shift online.

A CHANGING MARKET

OVERVIEW

In our Full Year Statement in March we identified three challenges facing the retail sector, these were:

(i) The general economic environment

(ii) The clothing market – cost price environment, cyclical weakness and sectorial shift

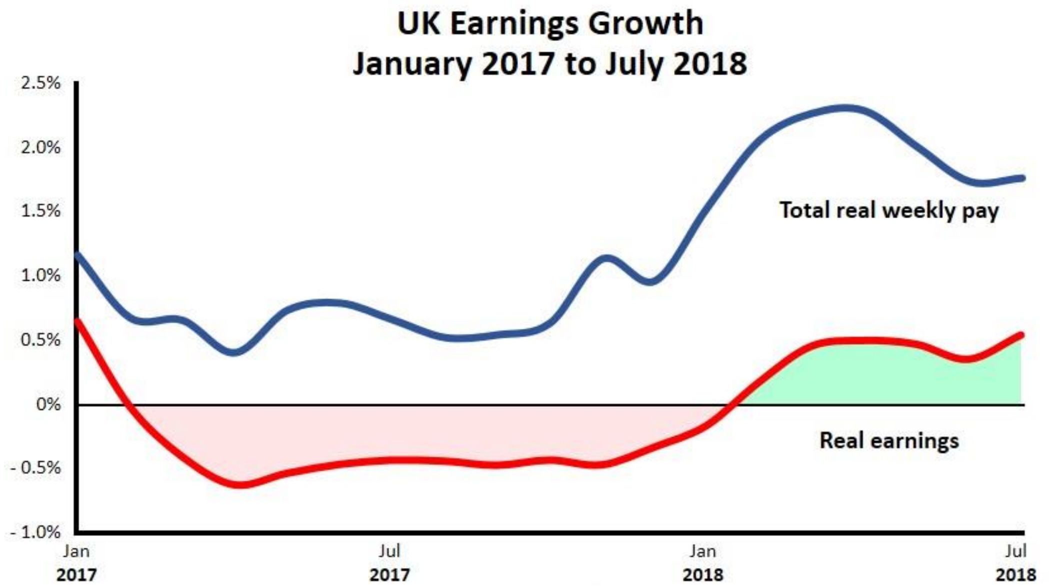
(iii) The structural shift online

(I) THE GENERAL ECONOMIC ENVIRONMENT

Real Incomes

Real incomes in the UK have remained positive since January 2018 in marked contrast to last year. In addition, the wider effect of the increase in real earnings is likely to be somewhat better than the raw numbers suggest, as the UK also experienced an increase in employment in the first half. We believe that the absence of the drag on real earnings has contributed to the marginal improvement in our first half performance this year.

The graph below shows the growth in average real earnings and a calculated estimate of total real weekly pay.

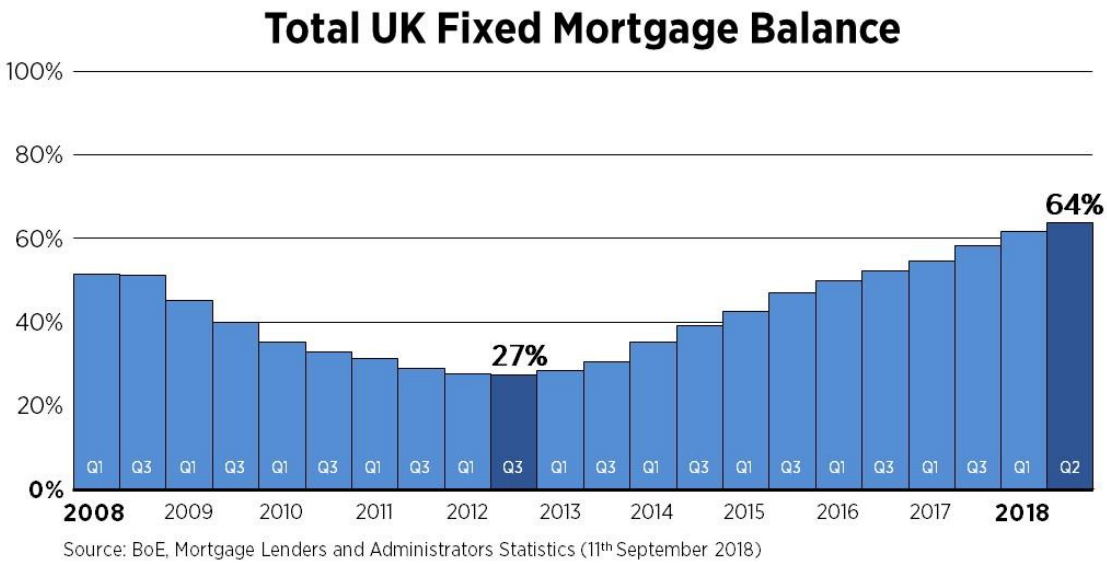


Source: ONS EARN01 Average Weekly Earnings (11th September 2018) and ONS EMP01 (11th September 2018)
Total Real Weekly Pay calculated as:
Total Employees (MGRN in EMP01, ONS 11th September 2018) x Real AWE 2015 £ (A2FC in EARN01, ONS 11th September 2018).

Potential Impact of Recent Interest Rate Rises

Interest rates were raised by +0.25% in November 2017 and a further +0.25% in August 2018. In the longer term, the increase in these rates is likely to suppress consumer demand and offset some of the improvement in real earnings. However, we believe that the effect of interest rate rises is likely to be gradual as many of the UK's mortgages are now on a fixed rate. In the second quarter of this year, around 90% of new mortgages were agreed on a fixed rate basis.

The chart below shows the percentage of all outstanding UK mortgage balances that are fixed. As can be seen, the latest position of 64% at a fixed rate compares with a low 27% in 2012.



(II) THE CLOTHING MARKET

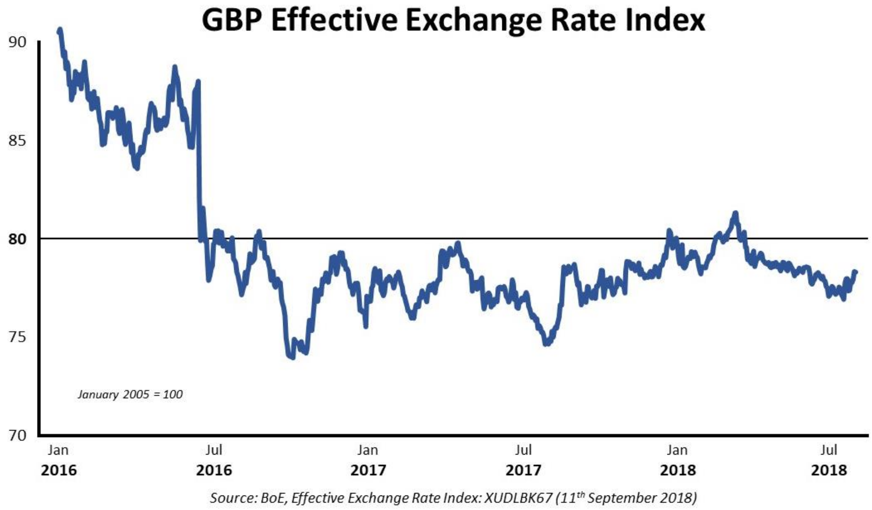
Last year the clothing (and homeware) markets were adversely affected by the following economic factors:

- Unusually high **cost price inflation** meant we had to increase selling prices to maintain margins
- A **sectorial shift** away from our core markets of clothing and homeware into leisure, entertainment and other experiential spending acted as a further drain on our revenues

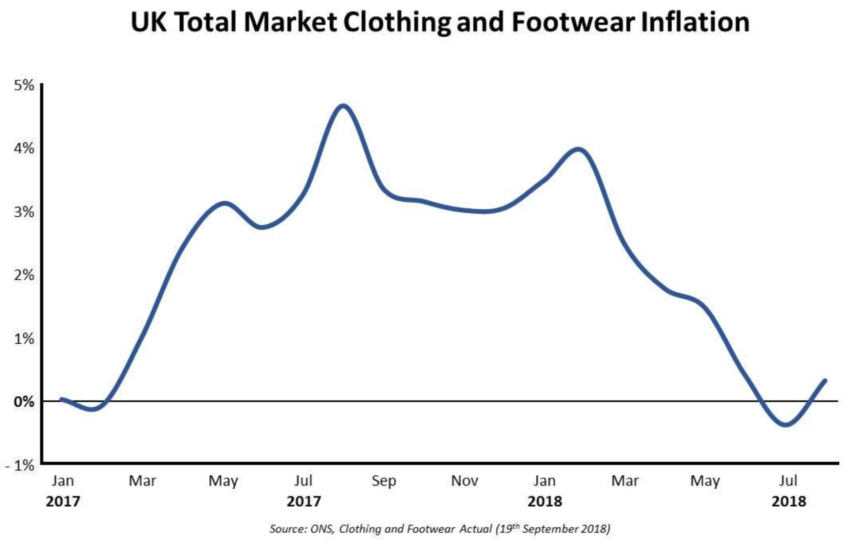
The first of these headwinds has now abated, the second is still very apparent but is, perhaps, moderating.

Cost Price Inflation

The cost price inflation of 2017 was caused by the sharp post-referendum devaluation of the Pound in June 2016, rather than any fundamental increase in the local costs of production. Since then the Pound has found a new level and appears to have stabilised around 13% lower than its level in January 2016 (see graph below).



The exchange rate has stabilised and cost price inflation in the clothing and footwear market has now fallen close to zero (see graph below). Our own experience mirrors that of the clothing sector.

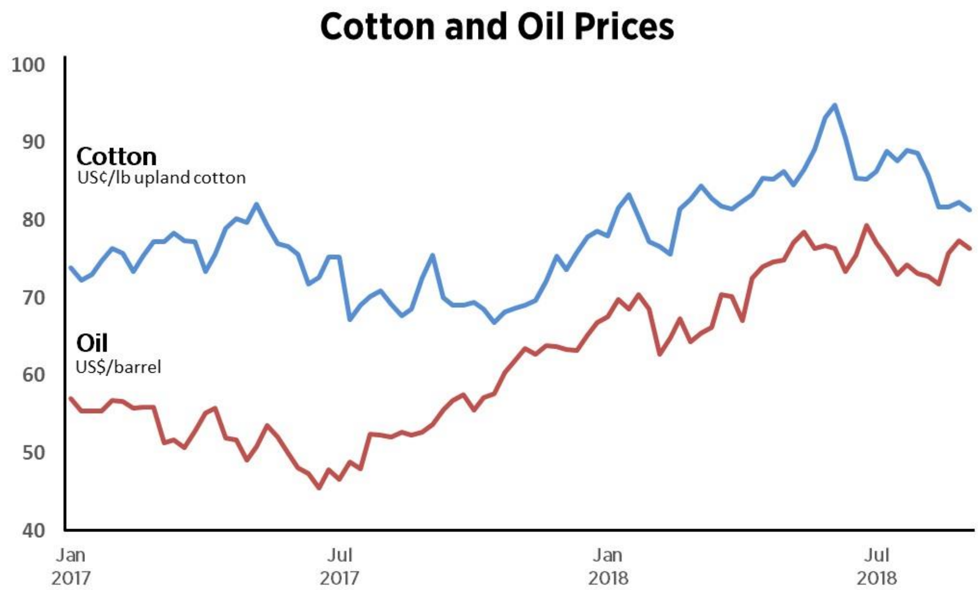


The table below sets out the exchange rates we have secured in US Dollars (our most important trading currency) by buying season, the change versus the prior year and the corresponding price increases on like-for-like product.

Buying season		£/USD costing rate	Strength of £ vs previous year	Average selling price variance
2018	Spring & Summer	$1.26	- 9%	+2%
	Autumn & Winter	$1.32	+5%	~0%
2019	Spring & Summer	$1.35	+7%	~0%
	Autumn & Winter	$1.32	+0%	~0%

In light of the uncertainty surrounding Brexit we have hedged our exposure to Pound volatility for the products we plan to sell up to January 2020. As a result, we do not expect any cost price inflation over the coming eighteen months. The flip side of this reduction in currency risk is that our pricing will not improve until January 2020 if the Pound strengthens against the Dollar in the coming months.

Exchange rates alone might imply that we should experience cost price improvements in Autumn 2018 and Spring 2019. However this improvement in exchange rates has, to some extent, been offset by increases in commodity prices (mainly cotton and oil, see chart below).

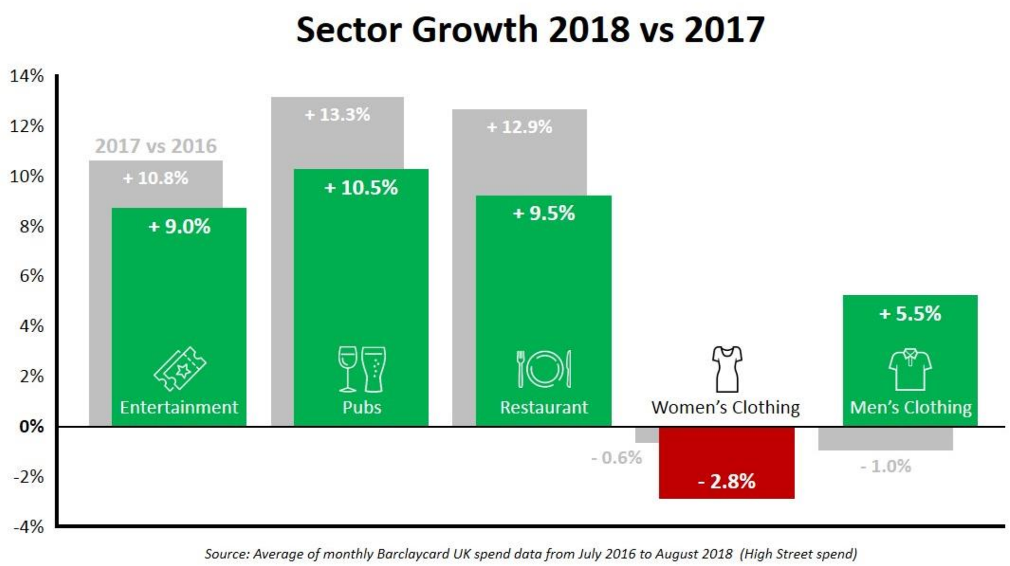


Source: Bloomberg weekly quote, 6th September 2018. Oil: CO1; Cotton CT1

Sectorial Shift

Since October 2016 we have seen a shift away from consumer spending on clothing and homeware into other more experiential spending sectors. We believe that this has been driven by innovation in the media, pub and restaurant sectors which have hugely increased the quality, access and diversity of products they offer.

The illustration below contrasts the growth in High Street spending on entertainment, pubs and restaurants with women's and men's clothing. The grey bars show the same figures for a year ago. As can be seen, the picture has changed very little over the last twelve months, though we have seen a revival in the fortunes of menswear (a trend matched in our own sales figures).

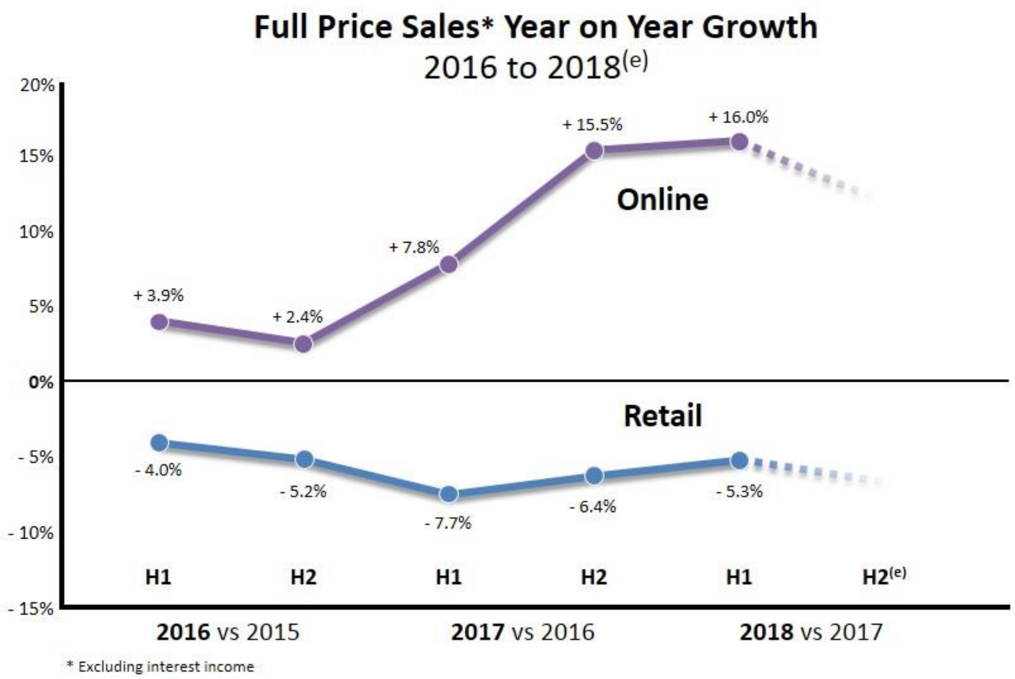


(III) STRUCTURAL CHANGE – THE MOVE ONLINE

In our Full Year Statement issued in March we identified the continuing transfer of sales from stores to online, not just in our own business but also in our industry.

The chart below shows the growth of our Retail and Online (excluding Finance) businesses over the last five half years along with our latest central guidance for the second half this year.

As can be seen the move to shopping Online has continued. The picture in the first half of this year is a little distorted by the under-performance of our ranges last year and our second half guidance may provide a better indication of overall trends. Nonetheless, it appears that the rate of decline in our Retail business is not getting any worse, whilst the improvement of our Online business is strengthening. This can largely be explained by the growth of our Overseas and UK third-party brands business, LABEL.



The Impact of Structural Shift on Profits in 2018

The aim of this analysis is to give a sense of how the economics of the Group are changing as business is transferred online.

The fact that the Group's forecast increase in full price sales for the year of +3% is expected to generate only a small increase in profit, is caused by the cost of the structural shift in sales from Retail to Online. In simple terms: as Retail sales decline many fixed costs remain, as Online sales grow its variable costs increase.

If all the sales lost in Retail (£112m) were transferred to sales of *NEXT stock* through our *UK Online* business, we would lose 7p for every Pound transferred, a cost of around £8m. This is consistent with our guidance issued in March and lower than the 13p gap we experienced last year.

The cost of the structural shift is mitigated by the fact that Online sales are growing faster than Retail declines; but hindered by the fact that third-party brand sales and sales overseas are at lower margins.

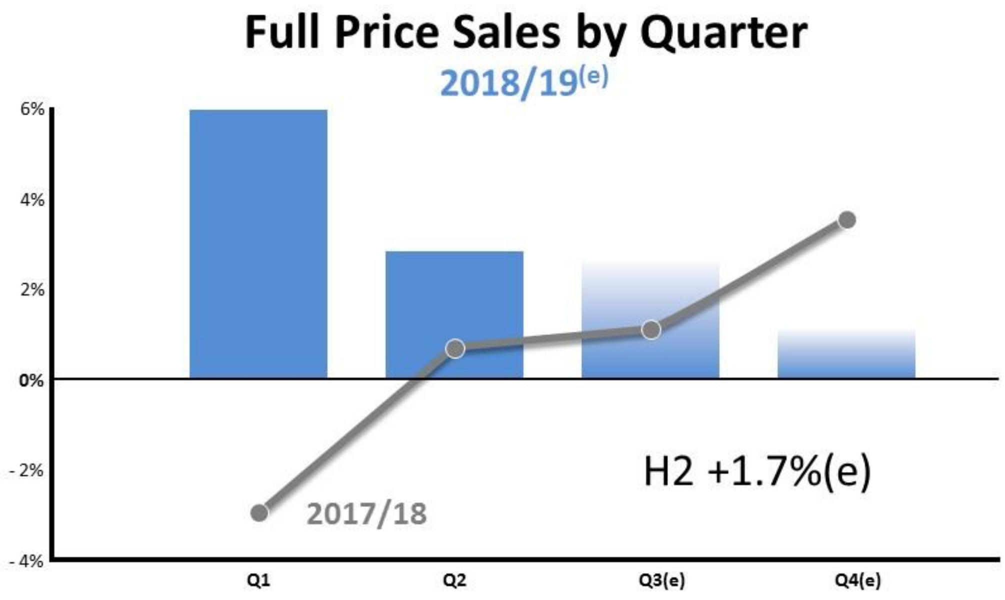
The effects of these changes on the economics of the Group are clearly set out in the table below. For each division we show the forecast change in sales and *marginal* profits generated by that incremental business. The forecast is taken from our central guidance set out on page 42. The profit given in the second column is the profit after all direct variable costs but *before* any allocation of fixed costs. The aim is to show the gain stemming directly from the change in sales in each business. For completeness, the cost increases and cost savings in the business are added below to give the total change in the profits of all four divisions.

Central guidance for the full year to January 2019 (e)	**Full price sales vs last year £m**	**Profit vs last year £m**	**% Margin before fixed overheads**
Retail (including new space)	**- 112**	**- 62**	**55%**
NEXT UK Online	+87	+42	48%
Overseas	+57	+14	24%
LABEL	+75	+19	26%
Total Online	**+219**	**+75**	**34%**
Total Brand full price sales and profit	**+107**	**+13**	
Cost increases		- 55	
Cost savings		+43	
Total	**+107**	**+1**	**1%**

SALES AND PROFIT GUIDANCE

OUTLOOK FOR SALES

Our sales phasing and outlook can only be understood in the context of our performance in the previous year. Last year the first quarter was particularly poor mainly as a result of self-inflicted ranging errors. We began to see the benefit of range improvements in the second quarter of last year, which is why we did not expect (or experience) the same year-on-year growth in this year's second quarter.



We believe that the lion's share of range improvements had been delivered for the second half of last year which is why we are budgeting for lower growth rates in the second half of this year. The graph below shows the improving sales performance last year along with our actual (Q1 & Q2) and forecast (Q3 & Q4) growth by quarter this year.

The table below sets out our new central guidance for full price sales growth in Retail and Online and our Finance interest income for the full year. For comparison we give the actual performance for last year.

Full price % variance on previous year	**New central guidance 2018/19 (e)**	**Actual performance in 2017/18**
Retail sales (including sales from new space)	- 6.0%	- 7.0%
Online sales	+13.2%	+11.9%
Product full price sales	**+2.4%**	**+0.4%**
Finance interest income	+12.8%	+6.4%
Total full price sales including interest income	**+3.0%**	**+0.7%**

OUTLOOK FOR PROFITS

Sales in the second quarter were £21m ahead of our expectations. We had thought there was a high risk of the sales gained in July being offset by losses in August; as it turned out we did not experience any material loss of sales in August and early September. So, we are now raising our central guidance for full year pre-tax profits by £10m to £727m; this is broadly in line with last year's profits of £726.1m.

The table below sets out our new central guidance along with the original guidance we issued in January and the revision issued in May.

Full year estimate to January 2019	New central guidance	May central guidance	January central guidance
Total full price sales versus 2017/18	+3.0%	+2.2%	+1.0%
Group profit before tax	£727m	£717m	£705m
Group profit before tax versus 2017/18	+0.1%	- 1.3%	- 2.8%
Earnings Per Share growth versus 2017/18	**+5.0%**	+3.7%	+1.1%

BOARD CHANGES

Retirement from the Board of Non-Executive Director

After serving on the Board for six years as a valued and knowledgeable independent non-executive director, Caroline Goodall will be retiring from the Board on 1 January 2019. We thank Caroline for her substantial contribution not only as a Board director but also as the Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. Caroline will be succeeded as Chairman of the Remuneration Committee by Francis Salway.

New Non-Executive Director Appointment

We have pleasure in announcing the appointment of Tristia Harrison as a non-executive director with immediate effect. Tristia is Chief Executive Officer of TalkTalk Telecom Group PLC. Prior to this Tristia was the Managing Director of TalkTalk's consumer business when it demerged from Carphone Warehouse, whom she joined in 2000 and held a number of senior management and executive positions. Tristia is also a Trustee at Comic Relief and national charity Ambitious about Autism. The Board confirms that no other disclosures need to be made under Listing Rule 9.6.13 in respect of this appointment.

Lord Wolfson of Aspley Guise
Chief Executive
25 September 2018

THIRD QUARTER TRADING UPDATE

Our next Trading Statement will cover the thirteen weeks to 27 October 2018 and is scheduled for 31 October 2018.

PART 3
BREXIT PREPARATION AND IMPACT ANALYSIS

INTRODUCTION

It appears to us that it would be in the interest of both the UK and remaining EU nations that the UK's departure from the EU is carefully managed, accompanied by a period of transition and some form of agreement for free trade. However, at this stage there can be no certainty that any such agreement will be reached so we are preparing NEXT for the possibility that the UK leaves the EU with neither a transition period nor a free trade agreement in place.

There are significant challenges involved in preparing for a no-deal outcome and we would not want to understate the work we are doing to prepare for this eventuality. However, we do not believe that the direct risks of a no-deal Brexit pose a material threat to the ongoing operations and profitability of NEXT's business here in the UK or to our £190m turnover business in the EU.

We are well advanced in our preparations and are setting up all the administrative, legal and physical infrastructure that will be needed to operate effectively if the UK and EU are unable to agree a free trade agreement. We are confident all the necessary arrangements we need to make will be in place by March of next year.

For the sake of clarity, we would like to stress that our analysis is specific to NEXT and should not be extrapolated to other businesses or industries.

KEY RISKS

We have undertaken a detailed analysis of the risks and operational challenges to our business and believe we now have a clear view of Brexit related risks and their potential impact on the business. Risks can be categorised into *direct risks* to our costs and operations and *indirect risks* that may affect our business through changes to the wider operating and economic environment.

Direct/ Indirect		Nature of risk	Risk level
Direct risks	(i)	Increases in tariffs and duty on goods imported **into the UK** from the EU and other countries	Medium
	(ii)	Administrative workload and costs in submitting necessary data on EU goods when they enter the UK **from the EU**	Low
	(iii)	Increases in tariffs and duty on goods exported **to the EU**	Low
	(iv)	Regulatory risks relating to the acceptability of product standards to UK and EU authorities	Very low
Indirect risks	(i)	Reduction in the value of Sterling along with associated increase in cost of goods from overseas	Medium
	(ii)	Queues and delays at UK and EU ports as a result of increased customs declarations for other companies	High

Each of the above risks will be covered in turn. Where possible we have tried to quantify the risks and detail the measures we are taking to mitigate the operational and financial challenges of a no-deal Brexit.

DIRECT RISKS

(I) IMPORT DUTIES ON GOODS ARRIVING IN THE UK

Potential Effect on Import Duties by Category

To understand the nature of the risks associated with higher import duties it is necessary to categorise goods into four groups:

Goods from:	*% of our stock*	Risk Level
a) Countries benefiting from Generalised System of Preferences (GSP)	53%	Low
b) Countries benefiting from EU Free Trade Agreements (FTA)	3%	Medium
c) Countries outside the EU without a trade deal or GSP	31%	No risk
d) EU and Turkey	10%	High

a) Goods from Countries Benefiting from Generalised System of Preferences (GSP)

The Generalised System of Preferences, or GSP, is a preferential tariff system which provides for formal exemptions from the more general rules of the World Trade Organisation (WTO). It is generally used to assist developing nations by allowing WTO member countries to lower tariffs for these nations without lowering them for imports from all other WTO countries (which is normally an obligation under WTO rules).

For the purposes of NEXT, GSP status means that we pay lower or no duty on importing goods from countries such as Cambodia, Bangladesh, India, Vietnam and Sri Lanka. Goods from countries benefiting from GSP account for 53% of our total stock.

In the explanatory notes to the Taxation (Cross-border Trade) Bill the Government has indicated that the UK will replicate the EU GSP rates, at their existing levels, to existing beneficiary nations once the UK has left the EU[23]. The power to grant GSP status is unilateral so, unless the Government changes its position, it is very unlikely that we will incur increased duty on goods from these countries[24] once the UK has left the EU.

b) Goods from Countries Benefiting from EU Free Trade Agreements (FTA)

We import 3% of our stock from countries with existing FTAs with the EU, c.75% of which comes from Tunisia, Morocco and Mauritius. These countries currently benefit from zero tariffs on clothing and footwear.

In the explanatory notes to the Trade Bill the Government has stated its intention to seek continuity in respect of the UK's current trade relationships through the EU, based 'as closely as possible' on existing trade arrangements.[25] This will be extremely helpful in ensuring a smooth transition and eliminates a significant business risk.

However, this intention will require significant preparation on the part of the UK Government and we believe there is a medium level risk that the necessary arrangements will not be in place at the point the UK leaves the EU.

[23] Page 15 of the Explanatory notes for Clause 10 of the **Taxation (Cross-border Trade) Bill**: "When the UK first leaves the EU, it is intended that the products and preferential tariffs applied in each tier would reflect the EU scheme to ensure that market access for all beneficiary countries is maintained."

[24] Schedule 3 of the **Taxation (Cross-border Trade) Bill** lists these countries by name according to category.

[25] Page 9 of the Explanatory Notes for Clauses 2 of the **Trade Bill**: "The Governments policy is to seek continuity in the UK's existing trade relationships as the UK leaves the EU. To achieve this, it will establish a UK trade agreement with each existing partner based, as closely as possible, on maintaining the effects of the current trade agreement that that country already has with the EU."

c) Goods from Countries Outside the EU, Without a FTA or GSP

Goods from these countries, such as China, account for 31% of our stock and currently attract the standard tariff rates applicable to clothing and footwear at an average of 11.8%. There is no risk of an increase in tariffs on these goods as a result of the UK leaving the EU. Though, of course, there would be an opportunity for the UK to lower the overall tariff rates (with countries without an FTA or GSP).

d) Goods from the EU and Turkey

10% of our stock comes from the EU and Turkey (which is in a Customs Union with the EU). This stock is currently duty free and would be liable to whatever standard level of import duty the UK chooses to set on clothing and footwear when it leaves the EU.

The UK government has not yet published the new tariff rates they would adopt in the event the UK leaves the EU without a FTA in place. For the purposes of our analysis of worst-case duty costs, we have assumed that the UK will adopt the same rates the UK (and EU) currently have for countries without an FTA or GSP, i.e. an average of 11.8% on clothing and footwear.

NEXT PLC COMMENT:
The opportunity to re-balance tariff rates and eliminate the net cost increase to the consumer

The WTO requires member states to impose the same tariff rates on all other member countries that do not benefit from specific trade agreements or GSP rates. So the UK will be required to impose tariffs on EU goods. However, whilst WTO rules set an upper level limit on rates, member countries can choose to set lower duty rates as they see fit. There is a strong argument that duty rates should be rebalanced in such a way that any increase in duty revenues coming from EU goods should be used to pay for lower overall tariff rates. This would eliminate any net increase in costs to the UK consumer, whilst maintaining revenue levels from customs duties. (It is perhaps worth noting that, at present, much of this revenue is sent directly to the EU and does not come to the UK Treasury.)

For example: in 2017 there was an estimated £1.1bn[26] receipt of customs duty from clothing and footwear (around 32% of all duty in the UK). If tariff rates were to remain at their current level of 11.8% and be applied to clothing and footwear imports from the EU and Turkey (as will be required under WTO rules), we estimate that UK Government revenues would rise by £1bn. To maintain income from customs duties at their current level and eliminate any increase in the overall cost of clothing to UK consumers, we estimate that the overall tariff rate could be lowered to 5.8%.

It will therefore be open to the UK to change its tariff rates to ensure that the UK consumers are not adversely affected overall by tariffs on EU goods. Put another way, if the Treasury were *not* to change tariff rates it would end up increasing taxes on UK consumers which, in the circumstances, we believe would be unhelpful.

We do not expect the Government to publish potential tariff rates at this stage, but it would be very useful if the Government could clarify its intentions in respect of overall tariff rates in the event of a no-deal Brexit. The clarity it has given in respect of GSP and existing trade deals serve as an excellent model. Even the most general indication that Government intends to manage tariffs so that Brexit does not increase overall duty costs for the consumer would be important. It would allow us to determine product prices in the coming year, confident that we will not need to increase prices to compensate for a potential increase in customs rates.

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[26] This has been estimated using overseas trade statistics from the HM Revenue & Customs Trade Statistics Unit for the 2017 calendar year.

Estimates of Import Duty Risks by Category

The table below sets out the annual value of stock at cost from the various categories of import territories along with the potential duty that might be payable in the worst-case scenario of the UK not grandfathering existing FTAs and making no changes to the UK's tariff rates on departure. We have assumed there is no risk of additional tariffs on goods from developing countries benefiting from GSP.

	Stock delivered[27] at cost £m	*Participation*	Current duty £m	Maximum potential additional duty £m (e)
General System of Preferences	925	*53%*	25	-
No trade agreement	535	*31%*	40	-
Free Trade Agreement	60	*3%*	-	5
EU & Turkey	170	*10%*	-	15
UK	50	*3%*	-	-
Total	**1,740**	***100%***	**65**	**20**

As can be seen from the table above, NEXT has relatively little exposure to stock purchased from the EU and Turkey (c.10%). Around half of this stock is from Turkey, where recent devaluations in the Turkish Lira will mitigate much of any possible increase in duty.

In the unlikely event that (a) the UK did not replicate FTAs with countries like Mauritius and Morocco and (b) no change was made to the overall level of tariffs applied, the maximum additional increase in the cost of goods would be around £20m which would add less than +0.5% to our prices at most. In reality some of these additional costs would be shared with suppliers or eliminated through alternative sourcing routes.

27 Stock delivered at cost includes commission, which is not subject to duty. Duty on homeware goods is significantly lower than clothing and footwear from most origins.

(II) ADDITIONAL ADMINISTRATIVE COSTS OF BRINGING EU STOCK INTO THE UK

Data and Declaration Administration

Although there is no customs border between the EU and UK, any company importing more than £1.5m or exporting more than £250k per annum is required to submit Intrastat[28] declarations for **all** goods flowing into the UK from the EU and vice versa.

Intrastat declarations contain almost entirely the same data that is required to make a customs declaration. Therefore, we do not anticipate any additional data will be needed in order to import goods from the EU post-Brexit and so there is little additional work in respect of data collection.

Time at Ports, Bonded Warehouses and Authorised Economic Operator (AEO) Status

Potential Delays (assuming fully functional ports)

The combination of NEXT's bonded warehousing, which means that duty is not incurred at the point of entry, along with its status as an Authorised Economic Operator means that, at present, all stock travelling into the UK destined for our warehouses from ***outside*** the EU incur only minimal delay on entry in the UK.

For example, a consignment of leather goods, with correct export documents, arriving from Tunisia by truck via Calais would typically pass all necessary clearances and be free to depart within an hour of arriving in Dover. Occasionally a consignment will be randomly selected for physical inspection and this can take a few hours.

Goods arriving from Portugal currently incur no delay other than a passport check, though it could still be selected for random inspection. So, there is no intrinsic reason why our EU goods should spend very much longer in customs than they presently do as a result of a no-deal Brexit. **Please note, this assumes that there are no other delays at our ports which is a major risk, see (ii) Delays at UK and EU Ports on page 52.**

Cost of Customs Admin

We will be required to make additional payments for customs clearance charges in respect of goods. We estimate that the increase in the volume of declarations will carry an administrative cost of around £100k.

We are in the process of ensuring that our computer systems and imports teams have the capacity to deal with any increase in workload.

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[28] Intrastat is the system for collecting information and producing statistics on the trade in goods between countries of the EU.

(III) IMPORT DUTIES FOR STOCK GOING TO THE EU FROM THE UK

We currently have annual sales[29] revenues in the EU (excluding UK) of £190m. Of this, £85m is through sales in our stores and the balance is sold online. Of our Online sales in the EU, £47m are dispatched to the consumer through our German warehouse.

Currently almost all our goods are delivered into our UK warehouse and subsequently shipped to EU customers in one of three ways:

			Sales £m
Online	(i)	Dispatched direct from our UK warehouses to EU customers	58
	(ii)	Shipped and held in our German warehouse for direct dispatch to EU customers	47
Retail	(iii)	Via our 27 stores in Eire, 7 stores in Czech Republic, 2 stores in Slovakia and 1 store in Sweden	85
Total			**190**

The tariff issues for these sales are as follows:

a) The risk of incurring double duty

b) The risk of paying duty on the selling price of the goods, rather than the cost price

c) The risk of stock losing GSP relief on entry to the EU

The nature of these risks and the steps we are taking to mitigate them are set out below.

a) Risk of Double Duty

There is a theoretical risk that stock originally imported into the UK could end up incurring double duty if it is subsequently exported to any country outside the UK. This potential cost does not exist for NEXT as our UK warehouses are Customs (or Bonded) Warehouses. This means that stock travelling to these warehouses does not incur duty on entry in the UK, but only when items are dispatched from our warehouses to UK stores or UK customers.

So currently, goods passing through the UK warehouses to countries outside the EU do not pay UK duty. This means that duty is only paid in the country where the stock is received by (i) an Online customer, (ii) an overseas NEXT shop or (iii) a franchise partner.

b) Risk of Paying Duty on Selling Price Rather than Cost Price

There is an additional risk when goods are sold online and dispatched from the UK to the EU. Customers will become liable for duty on the *selling price* of the goods rather than their cost price. This is because the customer would, in effect, be importing the goods at selling price into the EU from outside.

There are two ways in which stock is delivered to our EU customers:

- Stock is held in bulk in our German warehouse and dispatched to customers from this warehouse, which is within the EU
- Directly to customers from our UK warehouses

[29] Sales in the last 12 months.

Two different approaches to resolving the problem of paying duty on selling price will be adopted depending on the method of delivery.

Goods sent to EU customers from our German warehouse

We have set up a German company. It is likely goods would be sold to our German company from our UK company. Goods would then be deemed to have been imported into the EU by our German company at cost plus a reasonable transfer premium, in the same way as if they had been imported direct from the overseas territory in which they were manufactured.

It is our intention to bond our German warehouse facility so that goods will only incur duty when they leave it and go into free circulation in the EU. This will enable unsold goods that return from Germany to the UK to avoid double duty (see above).

Goods sent direct to EU customers from the UK

Goods sold directly to EU customers from the UK incur duty on the selling price of the goods. This would represent a very serious increase in costs to consumers as any increase in selling price required to recover the cost of duty would itself incur duty for the consumer.

In the short term this problem is mitigated by the fact that all consumer purchases going into the EU of *less than* €150 do not incur duty. The vast majority of our orders to EU customers are under this threshold. So, the increase in duty payable on the orders of more than €150 would be more than offset by a saving on duty on orders for less than that amount.

In the longer term this mode of trade is vulnerable to any change in the import threshold and it is our intention to steadily increase the volume of our EU business served through our German warehouse.

We have established an Eire company which will own goods sent from the UK to our Eire **Retail stores**. This means that goods can be imported into Eire at a cost (plus a reasonable transfer premium) and will therefore incur very little additional duty.

c) Potential Loss of GSP Relief on EU Imports

Without mitigation, this issue could give rise to a material increase in costs for our EU business and at worst could increase our selling price of goods in the EU by 2%.

Despite the fact that our UK warehouses are bonded, once the UK leaves the EU, goods that are imported to the UK and subsequently exported to another country generally lose their GSP relief and incur full duty charges.

For example, if stock is delivered **directly** to our German warehouse from Bangladesh (a GSP country) then those goods receive GSP relief and incur no duty. When the UK leaves the EU, if goods with GSP relief are imported into the UK and subsequently exported to the EU they would lose GSP relief and incur full duty.

If we took no action this would be a problem for stock sold in our Eire stores and through our German warehouse. The solution to this problem is to pre-allocate stock to our German warehouse and Eire stores at the point we contract for the goods. These goods would then pass through the UK *in transit* and in doing so, maintain their GSP status. We aim to have the systems in place to operate this solution by March 2019.

Although this solution addresses most of the potential cost, it requires an accurate prediction (on a line by line basis) of how much stock will be required in both Germany and Eire. Any over or under estimates in stock quantities would require a transfer of stock to or from our UK warehouse, and this stock would then lose GSP relief.

Currently Norway, Switzerland, Iceland, Lichtenstein and Turkey have agreements with the EU that allows stock transferred between these countries and the EU to maintain its GSP relief. There is a chance that the Government will agree a similar arrangement with the EU but we are not relying on any such agreement being reached.

(IV) STANDARDS AND GOODS REGULATION

There is a risk that goods sent from the UK may not be accepted as complying with EU standards after the UK leaves the EU.

We do not believe that this represents a risk to NEXT. The vast majority of our goods are independently tested and conform to EU (and hence to UK) standards. The test results we receive confirm that goods comply with EU standards and, given that they are generally provided by companies operating outside the UK, we can see no reason why our test results would not be acceptable to the EU.

There is no indication that the EU or UK intend to change relevant product regulation in the short term, so we see little medium term risk of non-compliance with either UK or EU standards. In the longer term there is a risk of divergence, though we are already used to complying with standards in many different territories and do not envisage that any divergence would create a significant additional workload.

The tests we undertake are done by independent companies accredited by the EU, many of whom are located outside of both the EU and UK. We can see no reason why the UK's departure from the EU would affect the validity of these companies' test results.

There are a very small number of products where UK standards are higher than EU standards (e.g. fire retardancy standards on children's nightwear). In these rare cases there is the possibility that the EU would no longer accept a test result which only stated that the items satisfied the (higher) UK standard. In such cases we will ensure that test reports state that items are compliant with both standards.

INDIRECT RISKS

(I) DEVALUATION OF STERLING

There is a risk of volatility in the value of the Pound and NEXT has covered all its Dollar currency requirements for the whole of 2019/20 at rates that are comparable to the exchange rate in the current year. In effect, we have insured the Company against cost price volatility as a result of the potential devaluation of the Pound. The corollary of this is that if the Pound significantly strengthens next year we will not reap any of the reward until the following year.

The following table sets out our Dollar costing rates for the current year along with the rates we have secured from next year:

$ Conversion rate	**2018/19**	**2019/20**	**Var**
H1	1.26	1.35	+7%
H2	1.32	1.32	0%
Full year	**1.29**	**1.33**	**+3%**

(II) DELAYS AT UK AND EU PORTS

There has been much talk of what may or may not happen at our ports if the UK were to leave the EU without a customs arrangement in place. It is not yet clear how well prepared HMRC systems, customs and other relevant personnel will be for the upcoming potential increase in workload and data capture.

We believe that this indirect risk of interruption to the smooth operation of our ports represents the biggest risk to our business from Brexit. The more information that can be provided by the Government on how they plan to manage *and* mitigate the increased workload would be helpful.

In our own sector there is no reason why goods should not flow with relatively little friction through customs from the EU, in the same way they currently come into the country from non-EU countries. The issue will be the preparedness of the UK authorities and UK businesses.

NEXT PLC COMMENT

Opportunity to Streamline Import Processes

It appears that most of the measures under discussion to ensure smooth operation of our ports post-Brexit are designed to perform the same procedures as currently undertaken for non-EU imports but in much greater volume.

It would be helpful to know if the Government are also considering changing some current customs practices, procedures and rules in such a way as to speed up the processing of in-bound traffic. The Government may consider the following measures that we believe would reduce the volume of work required at our ports and airports:

- Temporarily raising **import thresholds** for goods bought into the UK by small importers so that they avoid customs procedures
- Implement the kind of **self-assessment tax procedures** for customs tariffs and duties that mirror other UK taxes such as VAT. The Government trusts businesses to collect £125bn[30] of VAT through self-assessment, so it would seem reasonable to trust them also to collect £3.5bn[31] of Duty in the same way. We believe that this would push much of the administrative burden back from the points of entry to UK and do much to alleviate pressure on UK ports
- Extend temporary **Trusted Trader** (or Authorised Economic Operator) status to many more importers through a simplified and less burdensome application and certification process. This status allows certain checks on vehicles, drivers and customs classifications to take place inland or at a later date rather than at ports

The earlier that these or other measures are communicated to the business community the more likely they are to be successfully implemented.

[30] HM Revenue & Customs (Trade Statistics Unit), Value Added Tax Bulletin August 2018.
[31] HMRC Tax & NIC Receipts: information and analysis (August 2018).

SUMMARY

Departure from the EU without a free trade arrangement and managed transition period is **not** our preferred outcome. However, NEXT is well prepared for this eventuality and we have all the administrative, legal and IT framework in place to ensure that we are able to carry on running the business as we do now.

In terms of costs there would be some additional administrative costs but, in the scheme of the Group, these will be de minimis. We welcome the Government's decision to replicate GSP arrangements and, where possible, grandfather the EU's existing free trade agreements. These arrangements dramatically reduce the risk of higher duty costs for the business. There would, of course, be duties to pay on imports from the EU, however the net cost to the UK economy of these tariffs will entirely depend on what tariff rates the Government would adopt post a no-deal Brexit. Clarity on the Government's intentions on this issue would be very welcome.

We believe that the biggest risk to our business is the external risk of UK ports not coping with the additional volume of customs work they would be required to undertake if no changes are made to the UK's current procedures. As outlined above, we believe that it remains open to the Government to initiate changes in the way customs procedures operate and that such measures could eliminate much of the risk to our ports.

In conclusion, as long as:

- ports and customs procedures are well prepared for the change, and
- tariff rates are adjusted to ensure no net increase in duty costs to consumers

we believe we can manage the business to ensure no material cost increases or serious operational impediments.

APPENDIX 1

A NOTE ON PRIOR YEAR COMPARATIVES

Set out below, we have itemised three changes in reporting where throughout this document, we have restated figures reported in the half year ending July 2017. These changes relate to the reclassification of sales or profit between business divisions; overall Group sales and profit are unchanged. We have restated prior year numbers in order to provide the appropriate comparative figures in this set of results.

NEXT Finance and Online

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

Lipsy.co.uk

In January 2018 the lipsy.co.uk website was closed and Lipsy online sales are now made through the NEXT websites and reported in the Online business, under LABEL. We have reclassified sales of £4.4m (including markdown sales) and profit of £0.6m, in the first half of last year, from Lipsy to Online.

Cost Allocation

As explained in our Full Year Statement in March, during the second half of 2017/18 we reviewed and updated the method used for allocating costs between our Retail and Online businesses. This change ensured that we charged Online an appropriate level of handling costs for parcels collected and returned through our Retail stores.

The impact of this change on the first half of the prior year was a £5m increase in Retail profit and a £5m reduction in Online profit; there is no change to total Group operating profit. The impact on Retail margin was an increase of +0.6% and a -0.7% reduction for Online.

NEW ACCOUNTING STANDARDS

The Group has retrospectively applied the requirements of IFRS 15 "*Revenue from contracts with customers*" to statutory revenue. This increased statutory revenue by £16.1m in 2018/19 and £14.7m in 2017/18. There was no impact on Group profit or total sales in either years. For further details refer to Note 1 of the financial statements.

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

UNAUDITED CONSOLIDATED INCOME STATEMENT

	26 weeks to 28 July 2018 £m	26 weeks to 29 July 2017 Restated £m
Continuing operations		
Revenue	**1,961.9**	1,902.3
Cost of sales	**(1,287.8)**	(1,280.1)
Gross profit	**674.1**	622.2
Distribution costs	**(214.9)**	(186.9)
Administrative expenses	**(130.6)**	(110.5)
Other gains/(losses)	**1.8**	(0.1)
Trading profit	**330.4**	324.7
Share of results of associates and joint venture	**0.1**	0.5
Operating profit	**330.5**	325.2
Finance income	**0.1**	1.1
Finance costs	**(19.5)**	(16.9)
Profit before taxation	**311.1**	309.4
Taxation (Note 6)	**(56.9)**	(57.2)
Profit for the period attributable to equity holders of the Parent Company	**254.2**	252.2

	26 weeks to 28 July 2018	26 weeks to 29 July 2017
Earnings Per Share (Note 7)		
Basic	**185.6p**	176.9p
Diluted	**184.5p**	176.5p

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	26 weeks to 28 July 2018 £m	26 weeks to 29 July 2017 £m
Profit for the period	**254.2**	252.2
Other comprehensive income and expenses:		
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit pension scheme	**60.4**	5.6
Tax relating to items which will not be reclassified	**(10.3)**	(1.0)
Subtotal items that will not be reclassified	**50.1**	4.6
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(4.3)**	4.7
Foreign currency cash flow hedges:		
- fair value movements	**64.8**	(57.8)
- reclassified to the Income Statement	**(4.5)**	1.3
- recognised in inventories	**18.3**	1.8
Cost of hedging		
- fair value movements	**2.1**	-
- reclassified to the Income Statement	**-**	-
- recognised in inventories	**-**	-
Tax relating to items which may be reclassified	**(13.8)**	9.3
Subtotal items that may be reclassified	**62.6**	(40.7)
Other comprehensive income/(expense) for the period	**112.7**	(36.1)
Total comprehensive income for the period	**366.9**	216.1

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	**28 July 2018** £m	29 July 2017 Restated £m	27 Jan 2018 Restated £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		**555.6**	569.5	558.9
Intangible assets		**42.8**	43.1	42.9
Associates, joint venture and other investment		**5.1**	2.1	2.1
Defined benefit pension asset	9	**163.1**	65.0	106.2
Other financial assets	10	**53.4**	70.4	48.1
Deferred tax assets		**-**	5.3	5.8
		820.0	755.4	764.0
Current assets				
Inventories		**518.6**	467.2	466.7
Customer and other receivables	11	**1,281.7**	1,125.6	1,248.2
Right of return asset		**24.0**	25.4	23.4
Other financial assets	10	**31.3**	1.4	5.7
Cash and short term deposits		**66.1**	185.0	53.5
		1,921.7	1,804.6	1,797.5
Total assets		**2,741.7**	2,560.0	2,561.5
Current liabilities				
Bank loans and overdrafts		**(327.6)**	(3.2)	(180.0)
Trade payables and other liabilities	12	**(606.1)**	(634.7)	(580.2)
Dividends payable	8	**(141.9)**	(213.3)	-
Other financial liabilities	10	**(2.5)**	(29.0)	(59.3)
Current tax liabilities		**(89.7)**	(82.1)	(95.3)
		(1,167.8)	(962.3)	(914.8)
Non-current liabilities				
Corporate bonds	13	**(906.1)**	(915.9)	(908.5)
Provisions		**(10.2)**	(6.9)	(10.4)
Other financial liabilities	10	**(14.3)**	(20.1)	(12.4)
Other liabilities	14	**(220.7)**	(224.7)	(232.8)
Deferred tax liabilities		**(10.9)**	-	-
		(1,162.2)	(1,167.6)	(1,164.1)
Total liabilities		**(2,330.0)**	(2,129.9)	(2,078.9)
NET ASSETS		**411.7**	430.1	482.6
TOTAL EQUITY		**411.7**	430.1	482.6

The 29 July 2017 and 27 January 2018 Balance Sheets have been restated to reflect the impact of IFRS 15 "*Revenue from contracts with customers*" (Refer to Note 1).

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Foreign currency translation £m	Other reserves £m	Retained earnings £m	Total equity £m
At 27 January 2018	**14.5**	**0.9**	**15.4**	**(231.6)**	**(42.9)**	-	**3.3**	**(1,443.8)**	**2,166.8**	**482.6**
Profit for the period	-	-	-	-	-	-	-	-	**254.2**	**254.2**
Other comprehensive income/(expense) for the period	-	-	-	-	**65.2**	**1.7**	**(4.3)**	-	**50.1**	**112.7**
Total comprehensive income/(expense) for the period	-	-	-	-	**65.2**	**1.7**	**(4.3)**	-	**304.3**	**366.9**
Share buybacks and commitments	**(0.5)**	-	**0.5**	-	-	-	-	-	**(274.0)**	**(274.0)**
ESOT share purchases	-	-	-	**(41.9)**	-	-	-	-	-	**(41.9)**
Shares issued by ESOT	-	-	-	**14.9**	-	-	-	-	**(4.1)**	**10.8**
Share option charge	-	-	-	-	-	-	-	-	**6.4**	**6.4**
Tax recognised directly in equity	-	-	-	-	-	-	-	-	**2.8**	**2.8**
Equity dividends (Note 8)	-	-	-	-	-	-	-	-	**(141.9)**	**(141.9)**
At 28 July 2018	**14.0**	**0.9**	**15.9**	**(258.6)**	**22.3**	**1.7**	**(1.0)**	**(1,443.8)**	**2,060.3**	**411.7**
At 28 January 2017	**14.7**	**0.9**	**15.2**	**(215.4)**	**26.2**	-	**(4.5)**	**(1,443.8)**	**2,117.2**	**510.5**
Profit for the period	-	-	-	-	-	-	-	-	252.2	**252.2**
Other comprehensive (expense)/income for the period	-	-	-	-	(45.4)	-	4.7	-	4.6	**(36.1)**
Total comprehensive (expense)/ income for the period	-	-	-	-	(45.4)	-	4.7	-	256.8	**216.1**
Share buybacks and commitments	-	-	-	-	-	-	-	-	-	**-**
ESOT share purchases	-	-	-	(30.0)	-	-	-	-	-	**(30.0)**
Shares issued by ESOT	-	-	-	12.2	-	-	-	-	(7.7)	**4.5**
Share option charge	-	-	-	-	-	-	-	-	7.1	**7.1**
Tax recognised directly in equity	-	-	-	-	-	-	-	-	(0.5)	**(0.5)**
Equity dividends (Note 8)	-	-	-	-	-	-	-	-	(277.6)	**(277.6)**
At 29 July 2017	**14.7**	**0.9**	**15.2**	**(233.2)**	**(19.2)**	-	**0.2**	**(1,443.8)**	**2,095.3**	**430.1**

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 28 July 2018 £m	26 weeks to 29 July 2017 £m
Cash flows from operating activities		
Operating profit	**330.5**	325.2
Depreciation, impairment and loss on disposal of property, plant and equipment	**61.4**	63.0
Amortisation of intangible assets	**0.1**	0.2
Share option charge	**6.4**	7.1
Exchange movement	**(6.1)**	4.6
Increase in inventories and right of return asset	**(52.5)**	(41.5)
Increase in customer and other receivables	**(34.0)**	(1.7)
Decrease in trade and other payables	**1.3**	9.0
Net pension contributions less income statement charge	**3.5**	3.5
Cash generated from operations	**310.6**	369.4
Corporation taxes paid	**(68.5)**	(47.5)
Net cash from operating activities	**242.1**	321.9
Cash flows from investing activities		
Additions to property, plant and equipment	**(58.2)**	(54.3)
Movement in capital accruals	**4.1**	2.1
Payments to acquire property, plant and equipment	**(54.1)**	(52.2)
Proceeds from sale of property, plant and equipment	**0.2**	0.3
Purchase of shares in associate	**(3.0)**	-
Net cash from investing activities	**(56.9)**	(51.9)
Cash flows from financing activities		
Repurchase of own shares	**(275.0)**	-
Purchase of shares by ESOT	**(41.9)**	(30.0)
Disposal of shares by ESOT	**10.8**	5.3
Proceeds from unsecured bank loans	**150.0**	-
Interest paid	**(15.3)**	(14.2)
Interest received	**0.1**	1.1
Dividends paid (Note 8)	**-**	(64.3)
Net cash from financing activities	**(171.3)**	(102.1)
Net increase in cash and cash equivalents	**13.9**	167.9
Opening cash and cash equivalents	**8.5**	14.4
Effect of exchange rate fluctuations on cash held	**1.1**	(0.5)
Closing cash and cash equivalents (Note 16)	**23.5**	181.8

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The Group's interim results for the 26 weeks to 28 July 2018 (prior year 26 weeks to 29 July 2017) were approved by the Board of Directors on 25 September 2018 and have been prepared in accordance with IAS 34 "*Interim financial reporting"*, as adopted by the European Union.

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

The financial information contained in this report is condensed and does not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the 52 weeks to 27 January 2018 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 498(2) or (3) of the Companies Act 2006.

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 52 weeks ended 27 January 2018, except for the adoption of new standards effective as of 28 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

The Group applies, for the first time, IFRS 15 "*Revenue from contracts with customers*" and IFRS 9 "*Financial instruments*". The nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim consolidated financial statements of the Group.

IFRS 15 "Revenue from contracts with customers"

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

The Group has adopted IFRS 15 using the fully retrospective method of adoption. The key considerations along with the impact of adopting IFRS 15 are described below. **There was no impact on profit after tax or retained earnings on adoption of IFRS 15.**

1. Basis of preparation (continued)

a) Sale of goods

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

b) Variable consideration

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

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

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

Under IFRS 15 the Group presents a separate *right of return asset* on the face of the Balance Sheet, which represents an asset for the right to recover product from the customer. This was reclassified from *inventories*. Presented as a separate component of *trade payables and other liabilities* is the refund liability due to customers on the return of their goods (refer to Note 12). The refund liability relating to sales through the next**pay** credit offer continues to be presented as part of *Online customer receivables* (refer to Note 11) as it is settled net.

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

	29 July 2017 As reported £m	Adjustments £m	**29 July 2017** **Restated** **£m**
Non-current assets	755.4	-	**755.4**
Current assets			
Inventories	492.6	(25.4)	**467.2**
Customer and other receivables	1,125.6	-	**1,125.6**
Right of return asset	-	25.4	**25.4**
Other current assets	186.4	-	**186.4**
Total current assets	1,804.6	-	**1,804.6**
Current liabilities	(962.3)	-	**(962.3)**
Non-current liabilities	(1,167.6)	-	**(1,167.6)**
Net assets	430.1	-	**430.1**

1. Basis of preparation (continued)

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

c) Principal versus agent considerations

Under IFRS 15 certain income streams were reclassified to reflect the nature of the control of the goods before they are transferred to customers. In the majority of cases the Group was considered the principal in the transaction under IFRS 15 and recognised the full sale within revenue, rather than netted off costs. **The resulting adjustments increased revenue by £16.1m (2017: £14.7m) with £nil impact on profit (2017: £nil)**. Refer to Note 3 for further details on the impact of these adjustments.

d) Presentation and disclosure requirements

As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 4 for disclosure on disaggregated revenue.

IFRS 9 "Financial instruments"

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

a) Classification and measurement

Under IFRS 9, debt financial instruments are classified and measured at either Fair Value through Profit or Loss (FVPL), amortised cost, or Fair Value through Other Comprehensive Income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'Solely Payments of Principal and Interest' on the principal amount outstanding (the 'SPPI criterion').

1. Basis of preparation (continued)

In respect of the Group's *Online customer receivables*, these are subsequently measured at amortised cost as they are held within a business model with the objective to hold these financial assets in order to collect contractual cash flows that meet the SPPI criterion. The assessment of the Group's business models was made as of the date of initial application of the new IFRS 9 standard, 28 January 2018, and then applied retrospectively to those financial assets.

Financial assets at FVPL comprise derivative financial instruments which are not eligible for hedge accounting.

Except for certain trade receivables, under IFRS 9 the Group initially measures a financial asset at its fair value plus directly attributable transaction costs, unless that asset is classified as Fair Value through Profit and Loss (FVPL). Transaction costs of financial assets carried at FVPL are expensed in the Income Statement.

A summary of the subsequent measurement of financial assets is set out below:

Financial assets at FVPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit and loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, impairment or gain or loss on derecognition are recognised in profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents recovery of part of the cost of investment, in which case they are recognised in OCI. Other net gains and losses are recognised in OCI and never reclassified to profit or loss.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39.

b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The ECL approach introduces 3 stages:

Stage 1: Where there is no evidence of significant increase in credit risk since the origination of the financial asset. Stage 1 applies from the initial recognition of the financial asset unless it was credit impaired when purchased or originated.

Stage 2: Where there is evidence of significant increase in credit risk since origination of the financial asset.

Stage 3: Where the financial asset becomes credit impaired.

1. Basis of preparation (continued)

A 12 month expected loss is used for Stage 1 performing assets and a 'Lifetime Expected Credit Loss' for stages 2 and 3. An asset will move from Stage 1 to Stage 2 when there is evidence of significant increase in credit risk since the asset originated and into Stage 3 when it is credit impaired. Should the credit risk improve so that the assessment of credit risk at the reporting date is considered not to be significant any longer, assets return to an earlier stage in the ECL model.

The key assumptions in the ECL calculations are:

PD: 'The Probability of Default' is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.

EAD: 'The Exposure at Default' is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by the contract or otherwise and accrued interest from missed payments.

LGD: 'The Loss Given Default' is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that NEXT would expect to receive, discounted at the original effective interest rate. It is usually expressed as a percentage of the EAD.

The Group uses three probability weighted economic scenarios that are integrated into the model. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the Balance Sheet date. To reflect this, qualitative adjustments or overlays are made when such differences are significantly material.

As a retailer, NEXT is not required to provide against undrawn credit under the ECL model as the Group is selling product ("Merchant of Goods") rather than a financial instrument.

c) <u>Hedge accounting</u>

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

At the date of initial application of IFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedge relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationship and, as such, the adoption of hedge accounting requirements of IFRS 9 had no significant impact on the Group's financial statements.

Prior to 28 January 2018, the Group classified foreign currency options as held-for-trading derivatives and accounted for them at Fair Value through Profit or Loss. The fair value of options are divided into two portions: the intrinsic value (which is determined by the difference between the strike price and the current market price of the underlying) and the time value (that is the remaining value of the option which reflects the volatility of the price of the underlying and the time remaining to maturity). Following the adoption of IFRS 9, the Group is now designating the intrinsic value of foreign currency options as hedging instruments. The intrinsic value is determined with reference to the relevant spot market exchange rate. Changes in the time value of the options that relate to the hedged item are deferred in the cost of hedging reserve and recognised against the related hedge transaction when it occurs.

1. Basis of preparation (continued)

New accounting standards not adopted by the Group

IFRS 16 "*Leases*" will be effective for the year ending January 2020 and has not been early adopted by the Group. The Group has a large portfolio of leased properties and other equipment, including stores and warehouses; the minimum lease commitment on these at the financial year end is disclosed in Note 29 of the 2018 Annual Report.

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

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

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

The Group intends to apply the fully retrospective approach on transition and will restate comparatives. Given the complexities of IFRS 16 and the material sensitivity to key assumptions, such as discount rates, it is not yet practicable to fully quantify the effect of IFRS 16 on the financial statements of the Group.

Going concern

The directors report that, having reviewed current performance and forecasts, they are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

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 2018 Annual Report, described as follows, also remain relevant to the rest of the financial year: Business strategy development and implementation; Management team; Product design and selection; Key suppliers and supply chain management; Warehousing and distribution; Customer experience; Retail store network; Information security, business continuity and cyber risk; Financial, treasury, liquidity and credit risks. These are detailed on pages 42 to 46 of the 2018 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 have been determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Board. The performance of operating segments is assessed on profits before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 *'Share-based payment'* and unrealised foreign exchange gains or losses on derivatives which do not qualify for hedge accounting. Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. Total sales represents the amount payable by the customer, excluding VAT.

The activities, products and services of the operating segments are detailed on page 38 of the 2018 Annual Report. 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.

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

In January 2018 the Lipsy.co.uk website was closed and all Lipsy online sales are now made through the next.co.uk website and reported in NEXT Online. 2017 segment total sales and profit have been restated by £4.4m and £0.6m respectively to the show the prior year Lipsy.co.uk sales in NEXT Online for better comparability. Prior year segment reporting has also been restated accordingly to reflect this and the retrospective application of IFRS 15 (refer to Note 1).

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.

Segment sales and revenue

26 weeks to 28 July 2018	**Total sales excluding VAT £m**	**Commission sales adjustment £m**	**IFRS 15 adjustments £m**	**External revenue £m**	**Internal revenue £m**	**Total segment revenue £m**
NEXT Retail	**925.1**	**(0.6)**	**(2.0)**	**922.5**	**2.3**	**924.8**
NEXT Online	**892.3**	**(39.7)**	**18.1**	**870.7**	**-**	**870.7**
NEXT Finance	**122.0**	**-**	**-**	**122.0**	**-**	**122.0**
NEXT International Retail	**30.9**	**-**	**-**	**30.9**	**-**	**30.9**
NEXT Sourcing	**2.9**	**-**	**-**	**2.9**	**261.5**	**264.4**
	1,973.2	**(40.3)**	**16.1**	**1,949.0**	**263.8**	**2,212.8**
Lipsy	**7.8**	**(0.1)**	**-**	**7.7**	**32.9**	**40.6**
Property Management	**5.2**	**-**	**-**	**5.2**	**102.6**	**107.8**
Total segment sales/revenues	**1,986.2**	**(40.4)**	**16.1**	**1,961.9**	**399.3**	**2,361.2**
Eliminations	**-**	**-**	**-**	**-**	**(399.3)**	**(399.3)**
Total	**1,986.2**	**(40.4)**	**16.1**	**1,961.9**	**-**	**1,961.9**

3. Segmental analysis (continued)

Segment sales and revenue

26 weeks to 29 July 2017 (Restated)	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	993.2	(0.1)	(1.0)	992.1	2.3	994.4
NEXT Online	764.3	(25.5)	15.7	754.5	-	754.5
NEXT Finance	108.5	-	-	108.5	-	108.5
NEXT International Retail	32.6	-	-	32.6	-	32.6
NEXT Sourcing	3.2	-	-	3.2	271.6	274.8
	1,901.8	(25.6)	14.7	1,890.9	273.9	2,164.8
Lipsy	7.7	(0.8)	-	6.9	20.8	27.7
Property Management	4.5	-	-	4.5	103.4	107.9
Total segment sales/revenues	1,914.0	(26.4)	14.7	1,902.3	398.1	2,300.4
Eliminations	-	-	-	-	(398.1)	(398.1)
Total	1,914.0	(26.4)	14.7	1,902.3	-	1,902.3

3. Segmental analysis (continued)

Segment profit

During the second half of the year to January 2018, the recharges between NEXT Retail and NEXT Online were revised to better reflect the costs of the standalone businesses. The prior year segment profit results for the first half of 2017 have been restated to provide comparability.

	26 weeks to 28 July 2018	26 weeks to 29 July 2017 Restated	26 weeks to 29 July 2017 As reported
	£m	£m	£m
NEXT Retail	**73.2**	95.1	89.5
NEXT Online	**163.3**	134.8	217.1
NEXT Finance	**57.9**	58.7	-
NEXT International Retail	**3.0**	4.1	4.1
NEXT Sourcing	**14.8**	16.1	16.1
	312.2	308.8	326.8
Lipsy	**3.6**	2.5	3.1
Property Management	**4.4**	2.9	2.9
Total segment profit	**320.2**	314.2	332.8
Central costs and other	**(4.6)**	(0.7)	(0.7)
Recharge of interest	**19.8**	18.6	-
Share option charge	**(6.8)**	(7.3)	(7.3)
Unrealised foreign exchange gains/(losses)	**1.8**	(0.1)	(0.1)
Trading profit	**330.4**	324.7	324.7
Share of results of associates and joint venture	**0.1**	0.5	0.5
Finance income	**0.1**	1.1	1.1
Finance costs	**(19.5)**	(16.9)	(16.9)
Profit before tax	**311.1**	309.4	309.4

4. Revenue

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

26 weeks to 28 July 2018

	Sale of goods £m	**Credit account interest £m**	**Royalties £m**	**Rental income £m**	**Total £m**
NEXT Online	**870.7**	**-**	**-**	**-**	**870.7**
NEXT Finance	**-**	**122.0**	**-**	**-**	**122.0**
NEXT Retail	**922.5**	**-**	**-**	**-**	**922.5**
NEXT International Retail	**28.0**	**-**	**2.9**	**-**	**30.9**
NEXT Sourcing	**2.9**	**-**	**-**	**-**	**2.9**
Lipsy	**6.8**	**-**	**0.9**	**-**	**7.7**
Property Management	**-**	**-**	**-**	**5.2**	**5.2**
Total	**1,830.9**	**122.0**	**3.8**	**5.2**	**1,961.9**

26 weeks to 29 July 2017 (Restated)

	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Online	754.5	-	-	-	754.5
NEXT Finance	-	108.5	-	-	108.5
NEXT Retail	992.1	-	-	-	992.1
NEXT International Retail	28.6	-	4.0	-	32.6
NEXT Sourcing	3.2	-	-	-	3.2
Lipsy	6.2	-	0.7	-	6.9
Property Management	-	-	-	4.5	4.5
Total	1,784.6	108.5	4.7	4.5	1,902.3

5. Operating Profit

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

	26 weeks to 28 July 2018 £m	26 weeks to 29 July 2017 £m
Impairment charges on tangible assets	**1.4**	2.7
Write down of inventories to net realisable value	**51.5**	60.3
Customer and other receivables:		
Impairment charge	**27.5**	15.1
Amounts recovered	**(2.8)**	(2.0)

6. 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.

7. Earnings Per Share

	26 weeks to 28 July 2018	26 weeks to 29 July 2017
Basic Earnings Per Share	**185.6p**	176.9p
Diluted Earnings Per Share	**184.5p**	176.5p

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 Earnings Per Share is calculated by adjusting the weighted average number of shares used for the calculation of basic Earnings Per Share as increased by the dilutive effect of potential ordinary shares. Dilutive shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period. Their dilutive effect is calculated on the basis of the equivalent number of nil cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. In the current period, there were 2.6m non-dilutive share options which were excluded from the diluted EPS calculation (2017: 5.3m).

The table below shows the key variables used in the Earnings Per Share calculations:

	26 weeks to 28 July 2018 £m	26 weeks to 29 July 2017 £m
Profit after tax attributable to equity holders of the Parent Company	**254.2**	252.2
Weighted average number of shares (millions):		
Weighted average shares in issue	**142.0**	147.0
Weighted average shares held by ESOT	**(5.0)**	(4.5)
Weighted average shares for basic EPS	**137.0**	142.5
Weighted average dilutive potential shares	**0.7**	0.3
Weighted average shares for diluted EPS	**137.7**	142.8

8. Dividends

It is intended that this year's ordinary interim dividend of 55p per share will be paid to shareholders on 2 January 2019. NEXT plc shares will trade ex-dividend from 6 December 2018 and the record date will be 7 December 2018. Dividends paid or declared during the period were as follows:

26 weeks to 28 July 2018

	Paid	**Pence per share**	**Cash Flow Statement £m**	**Statement of Changes in Equity £m**	**July 2018 Balance Sheet £m**
Ordinary final dividend for year to Jan 2018	1 Aug 2018	105p	-	141.9	141.9
			-	**141.9**	**141.9**

26 weeks to 29 July 2017

	Paid	Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m	July 2017 Balance Sheet £m
Special interim dividend	2 May 2017	45p	64.3	64.3	-
Special interim dividend	1 Aug 2017	45p	-	64.0	64.0
Ordinary final dividend for year to Jan 2017	1 Aug 2017	105p	-	149.3	149.3
			64.3	277.6	213.3

9. 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 28 July 2018 £m	26 weeks to 29 July 2017 £m	52 weeks to 27 January 2018 £m
Surplus in schemes at the beginning of the period	**106.2**	62.9	62.9
Current service cost	**(4.2)**	(4.4)	(8.7)
Administration costs	**(1.1)**	(0.7)	(1.5)
Net interest	**1.3**	0.9	1.7
Employer contributions	**0.5**	0.5	8.4
Actuarial gains	**60.4**	5.8	43.4
Surplus in schemes at the end of the period	**163.1**	65.0	106.2

9. Defined benefit pension (continued)

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 28 July 2018	26 weeks to 29 July 2017	52 weeks to 27 January 2018
Discount rate	**2.85%**	2.50%	2.50%
Inflation – RPI	**3.15%**	3.15%	3.20%
Inflation – CPI	**2.15%**	2.15%	2.20%
Salary increases	**-**	-	-
Pension increases in payment			
- RPI with a maximum of 5%	**2.95%**	2.95%	3.00%
- RPI with a maximum of 2.5% and discretionary increases	**2.00%**	1.95%	1.95%

In August 2018 the Trustees of the 2013 Plan undertook a buy-in in respect of certain pensioner members of the 2013 Plan, with a premium paid of £94m. The impact of the buy-in would be to reduce the reported surplus by approximately £10m to £15m.

10. Other financial assets and liabilities

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

11. Customer and other receivables

	28 July 2018 £m	29 July 2017 £m	27 Jan 2018 £m
Gross Online customer receivables	**1,340.4**	1,181.1	1,295.8
Less: Refund liabilities	**(48.4)**	(44.8)	(40.2)
Net Online customer receivables	**1,292.0**	1,136.3	1,255.6
Less: Allowance for doubtful debts	**(150.5)**	(139.2)	(138.7)
	1,141.5	997.1	1,116.9
Other trade receivables	**27.2**	18.5	21.7
Less: Allowance for doubtful debts	**(0.1)**	(0.1)	(0.1)
	1,168.6	1,015.5	1,138.5
Prepayments	**98.9**	97.6	94.2
Other debtors	**11.5**	12.0	13.4
Amounts due from associates and joint venture	**2.7**	0.5	2.1
	1,281.7	1,125.6	1,248.2

12. Trade payables and other liabilities (current)

	28 July 2018 **£m**	29 July 2017 £m	27 Jan 2018 £m
Trade payables	**190.6**	206.5	168.4
Refund liabilities	**7.6**	11.6	10.9
Other taxation and social security	**60.2**	59.4	62.4
Deferred revenue from the sale of gift cards	**62.2**	61.5	78.1
Property lease incentives	**34.9**	31.9	32.6
Share-based payment liability	**0.9**	0.2	0.8
Other creditors and accruals	**249.7**	263.6	227.0
	606.1	634.7	580.2

13. Corporate bonds

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

	Nominal value			**Balance Sheet value**		
	28 July 2018 £m	29 July 2017 £m	27 Jan 2018 £m	**28 July 2018 £m**	29 July 2017 £m	27 Jan 2018 £m
Corporate bond 5.375% repayable 2021	**325.0**	325.0	325.0	**328.1**	329.4	328.4
Corporate bond 4.375% repayable 2026	**250.0**	250.0	250.0	**278.0**	286.5	280.1
Corporate bond 3.625% repayable 2028	**300.0**	300.0	300.0	**300.0**	300.0	300.0
	875.0	875.0	875.0	**906.1**	915.9	908.5

As explained in the January 2018 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. At July 2018, the fair value of the Group's corporate bonds was £953.3m (July 2017: £980.4m, January 2018: £966.7m). The fair values are market values at the balance sheet date (IFRS 13 Level 1).

14. Other non-current liabilities

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

15. Share buybacks

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

	2018 Shares '000	**2018 £m**	2017 Shares '000	2017 £m
Shares in issue at start of year	**144,882**	**14.5**	147,057	14.7
Shares purchased for cancellation in the period	**(5,197)**	**(0.5)**	-	-
Shares in issue at July	**139,685**	**14.0**	147,057	14.7

The total cost of shares purchased for cancellation as shown in the Statement of Changes in Equity was £274.0m (2017: £nil).

16. Analysis of net debt

			Other non-cash changes		
	27 Jan 2018 £m	Cash flow £m	Foreign exchange £m	Fair value changes £m	**28 July 2018 £m**
Cash and short term deposits	53.5				**66.1**
Overdrafts and short term borrowings	(45.0)				**(42.6)**
Cash and cash equivalents	8.5	13.9	1.1	-	**23.5**
Unsecured bank loans	(135.0)	(150.0)	-	-	**(285.0)**
Corporate bonds	(908.5)	-	-	2.4	**(906.1)**
Fair value hedges of corporate bonds	33.5	-	-	(2.4)	**31.1**
Total net debt	(1,001.5)	(136.1)	1.1	-	**(1,136.5)**

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

25 September 2018

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

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

Certain statements which appear in a number of places throughout this announcement are "forward looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to the risks described in "Risks & Uncertainties" on pages 42 to 46 of the 2018 Annual Report and those matters highlighted in the Chief Executive's review; failure by NEXT to accurately predict accurately customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of NEXT's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; insufficient consumer interest in NEXT Online; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. These forward looking statements do not amount to any representation that they will be achieved as they involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.