next PLC

Results for the Half Year Ending July 2020

CHIEF EXECUTIVE'S REVIEW

HEADLINES

Performance in the First Half

- Profit before tax of £9m[1]
- Full price sales[2] down -33% on last year
- Surplus cash generation (after capex, tax and interest) of £347m

Guidance for the Full Year

- Full price sales in the last seven weeks up +4% on last year; a strong start but driven by recent cool weather and fewer overseas holidays
- Central guidance: full price sales for the rest of the year to be -12%
- Central guidance: profit before tax of £300m[3], up from the central scenario of £195m given in July's Trading Statement
- Central guidance: year end net debt to *reduce* by £462m, to £650m. Year end net debt forecast to be around 65% of £1.0bn customer receivables

PURPOSE AND STRUCTURE OF THIS DOCUMENT

This is a long document: the way the different parts of the business have performed through lockdown, the emerging shape of the Company's finances, the lessons we have learnt over the last few months and the new businesses we are developing all require careful explanation. For those without the time to read the whole report, the 10 page summary starting on page 4 attempts to summarise the main themes and facts within the report.

Our motive for giving such a comprehensive view of the Company's performance and plans goes beyond the primary task of keeping shareholders informed. The more clarity we give about the state of the Company's sales, finances and prospects, the better we ourselves understand the business. The more precise and coherent we are in explaining our objectives and plans, the more likely it is that we will succeed in implementing them – and execution is ninety per cent of the battle! So, our six-monthly reports have become more than just a means of communicating our performance, they are an intrinsic part of planning and leading the organisation.

For ease of reading, this document is divided into the following parts:

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[1] Profit before tax of £9m is pre-IFRS 16, Leases. The financial information presented in pages 2 - 41 is that used by management to monitor and assess business performance. They are not statutory measures. A reconciliation to the statutory equivalents is provided in the Appendix on page 42.

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

[3] Profit before tax of £300m is on a 52 week basis. This year has 53 weeks; the extra week is forecast to add £12m of profit before tax.

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PART 1 - BIG PICTURE:
A SUMMARY OF THE REPORT

FOUR KEY MESSAGES

There are four main themes that have emerged through the course of the year:

Sales Resilience	The Company's sales performance through the pandemic has been more resilient than we expected. The scale of our Online business (in the UK and overseas), the breadth of our product offer, and the fact that much of our store portfolio is located out of town, have served to mitigate the worst effects of the pandemic on trade.
Financial Stability	The Company's finances are in good shape. We have reduced our stock levels and costs as the pandemic progressed. We have also generated cash flow from: (1) our customer credit book and (2) the sale of some assets. These actions, along with the fact that the business went into the pandemic with healthy net margins and low capital requirements, mean that we are likely to go into next year with significantly less net debt than we had at the start of the year.
New Ways of Working	From a business perspective the pandemic has been hugely expensive and disruptive – but there has been much to learn from the experience. We have discovered powerful ways to improve our warehouse and call centre operations. Perhaps more importantly, the experience of having to work from home has opened our eyes to new and better ways of working, collaborating and communicating amongst ourselves and with our suppliers.
Opportunities for New Business Development	The sharp slowdown in our operations has given many of us the time and the motivation to accelerate our efforts to leverage the Company's skills, people and infrastructure – developing new businesses in a rapidly changing world. We have consciously increased our appetite for new ideas, along with our willingness to take on the risks associated with investing in new projects. The pandemic has created a more fluid environment in which opportunities are likely to emerge at speed.

SALES RESILIENCE

Sales have held up much better than we initially anticipated. We think the following three factors have worked in our favour:

- The scale and continued success of our Online business which, *before* going into the lockdown, accounted for more than half of our turnover
- The fact that we have significant Home, Childrenswear, loungewear and sportswear businesses, which have done relatively well during the pandemic
- The relative strength of our out of town Retail Park stores

The Relative Size of Our Online Business

NEXT was fortunate that its Online sales accounted for more than half of its turnover going into the pandemic, so we had the scale online to make up for some of the business we lost, and continue to lose, from our stores. Interestingly, sales Online have been significantly stronger since our stores reopened than they were before the pandemic struck. It appears that some lockdown habits have stuck, and we have been able to take advantage of this shift to Online.

It was a stroke of good fortune that the product areas that did well, also had much lower rates of return. So every item despatched was less likely to come back and more likely to convert into a sale. This meant that limited picking and packing capacity was used to best effect.

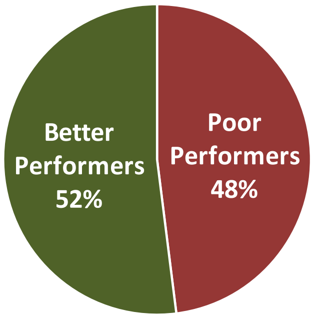
It has not all been plain sailing. In March we had to close our warehouses in order to make them COVID safe. The scale of that task should not be underestimated – 6.8m square feet of warehousing had to be repurposed to achieve rigorous social distancing. One-way systems, perspex shielding, sanitation equipment, temperature monitors, additional loos and new operating procedures were designed and installed in two weeks. We then had to re-induct and retrain over 4,000 colleagues.

Product Mix

As might be expected, some product areas did better than others during lockdown. Unsurprisingly, sales of clothing for work, weddings, going out and warm weather holidays were significantly down on last year. In some weeks, areas such as men's and women's suits, occasion dresses, formal shoes and party clothes were as much as 80% down on last year. In contrast, childrenswear, sportswear, loungewear, underwear and home products performed much better, particularly Online where, in some areas, we experienced significant growth. It is testament to many years of innovation and hard work from our Childrenswear and Home product teams that these better performing areas accounted for around half of our sales going into the pandemic (see graphic below).

Better Performers
Home
Childrenswear
Sports
Lounge & underwear

Total full price sales - 17% vs last year



Sales participation for Spring / Summer 2019

Poor Performers
Formal
Occasion
Holiday
Shoes & accessories

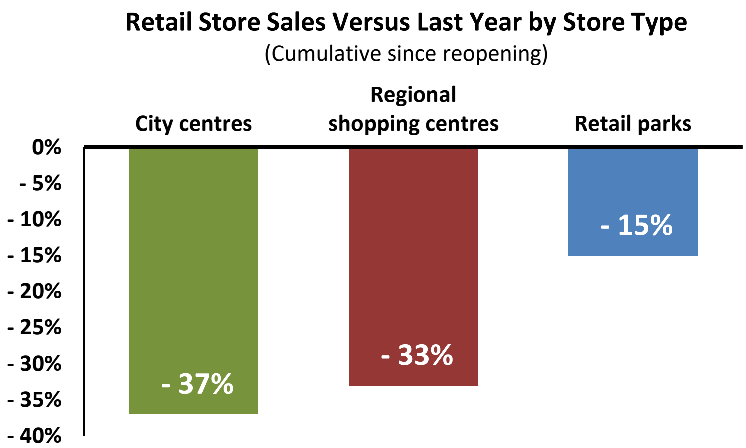
Total full price sales - 53% vs last year

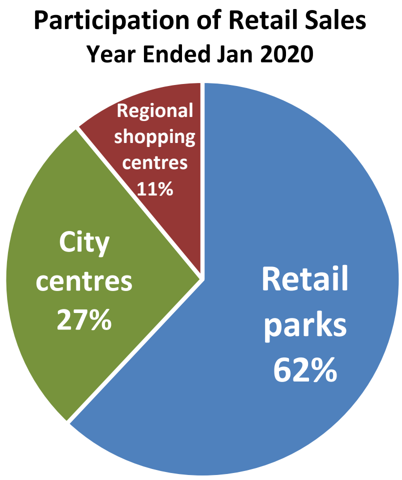
Although these trends are now moderating, they have not reversed and we do not expect to see these trends change direction until next year, at the earliest.

Retail Parks

The sales performance of our stores, although down on the year, has steadily improved since they reopened. However there has been a marked difference in the performance of different types of store. The difference is easy to explain in terms of people's reluctance to be in crowded places, particularly those that many would normally access through public transport. In addition (and again unsurprisingly), those city centres that are most dependent on office worker trade have fared much worse than the average. In contrast, retail parks where customers can park and walk straight into relatively spacious stores have performed much better. Smaller towns have also generally performed better than larger cities.

The charts below set out the cumulative performance of our stores by category since reopening, along with the percentage of total Retail sales that each store type accounted for going into this year. The regional shopping centres are stores in large out-of-town or edge-of-town shopping centres such as Thurrock Lakeside, Sheffield Meadowhall and Gateshead Metro Centre.





FINANCIAL STABILITY

Healthy Net Margins and Capital Discipline

Retail is a volatile industry, and we have always taken the view that our net margins need to reflect the levels of risk inherent in an unpredictable market. We have managed our pricing and investment appraisals to maintain healthy net margins and good returns on capital invested, occasionally at the expense of accelerating growth. As a result of these disciplines, our business is geared up to deliver good operating margins alongside low levels of capital consumption, resulting in a business that has been, and remains, highly cash generative.

For example, our investment hurdles for new store openings are (and have always been) that they must achieve *at least* 15% net branch contribution before central overheads and payback capital invested in less than two years. As a result, the net branch contribution of our entire store portfolio at the start of the year was 20%, despite the fact our stores had been losing sales to Online for five years.

The Ability to Control Stock

We were able to reduce our stock holding by much more than we had anticipated in March. We had planned for sales in the first half to grow by +3% and, at the end of February, our stock was up +3% on the previous year. We were able to reduce the cost of stock for the first half by £220m[4] by (1) cancelling orders that had not yet gone into production (but paying for unused fabric), (2) hibernating stock for the following year and (3) reducing future orders. This meant that, despite full price sales decline of -33% in the first half, we generated -17% less markdown stock than at the same time last year.

The Quality of Our Customer Credit Book

We have always considered that the Group's net financial debt (currently £765m) needs to be viewed in the context of our net customer receivables which, after provisions for bad debt, stand at £1.0bn at the half year. We believe the performance of our customer receivables over the last six months has demonstrated the quality and resilience of this asset in the most extreme circumstances.

At the height of the pandemic, Online sales, along with the associated consumer lending, declined. However, as the season progressed, customer payments carried on much as usual. The combination of less lending and normal collection rates meant that during the half we collected in a net £241m of consumer receivables.

As yet, we have seen no deterioration in bad debt rates or any extension in payment days (the length of time that customers choose to pay down their account), although we are providing for some increase in bad debt during the second half in anticipation of any fallout resulting from the end of furlough.

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[4] The figure quoted is the stock cancelled net of stock provisions.

NEW WAYS OF WORKING

The pandemic has been expensive and miserable. But *some* good has come from the upheaval. It is remarkable what can be learnt from shutting down your entire operation and slowly, department by department, store by store, warehouse by warehouse, bringing it back to life. All the more challenging and informative with much of the endeavour managed by hundreds of our colleagues sitting in their spare bedrooms, kitchens and conservatories! We have learnt how we can work more effectively. Lessons which, if we are careful to preserve them, will stand us in good stead for years to come.

The benefits fall into two categories: (1) in our warehouse and call centre operations we have discovered more efficient ways of working and (2) in non-operational departments such as IT and Buying, working from home has forced us to take advantage of new technology with all its possibilities for improved communications, efficiency and employee job satisfaction.

At this point it is only right to mention the extraordinary effort made by so many colleagues, at every level in the organisation, to keep the Company running through lockdown. The hard work, enthusiasm, ingenuity, common sense and determination of colleagues from so many diverse parts of the Company has been an inspiration. From warehouse managers to buyers, systems programmers to store managers and financial analysts – NEXT employees have pulled together to keep the Company running in circumstances none of us could have imagined in January. I know our experience has not been unique, but nonetheless over the last six months I have, on many occasions, felt very thankful that I work for NEXT.

Operational Improvements in Warehouses and Call Centres

Warehouses

The process of ceasing virtually all warehouse operations and slowly, operation by operation, winding them back up, was instructive. Social distancing forced us to spread work as evenly as possible over 24 hours and in doing so, we discovered we could be much more efficient if we allocated work differently going forward. We also gained an insight into the true costs of stretching our next-day delivery cut off to midnight and we are actively reviewing whether that last hour is really worth the costs involved.

Call Centres

At a time when we needed them most, COVID rendered our Call Centres virtually unusable. We needed to get colleagues taking calls from their homes. For many years we believed this was simply not practical or possible. I am grateful to Alex Baldock (CEO of Dixons Carphone) for sharing his experience on this issue. Within five weeks of Alex explaining it was possible, many of our managers and staff were set up to take calls from home.

The solutions we have in place are temporary and need enhancing and we are still struggling to keep up with call centre demand. We need to recruit additional staff, invest in new equipment, develop new management techniques and invest in upgrading software. But we now know that we can employ customer service agents in their homes for some of their working days. This opens up the possibility of creating more flexible, convenient and enjoyable ways of working, making it easier for the business to recruit and retain staff whilst enhancing our ability to flex up work when we experience spikes in call centre demand.

Working from Home - the Good, the Bad and the Unknown

The Good

Reducing the number of long commutes, with all their stress and inconvenience, and eliminating the distractions inherent in the office environment has allowed some solitary tasks (such as systems coding and product design) to become more focussed and effective.

In our Buying teams, restrictions on overseas travel have actually encouraged more regular contact with suppliers and closer collaboration through video calls. Many of our Buying teams have succeeded in developing and selecting new ranges remotely using digital technologies to handle diverse tasks from amending garment fit to checking colour continuity. The result, in many cases, has been more focussed, more frequent and faster decision making. Decisions have been made on the spot rather than being 'saved up' for trips or selection meetings. At best, these new ways of working have engendered independence of action, creativity and stimulated innovation.

Standing back from these changes one important theme emerges. We have had to let go of some of our time-honoured product selection processes - with all their checks and balances - and we have empowered individuals and small teams to make more decisions outside of the corporate machine. For many, this has been liberating and the best people have increased and improved their creative output. With hindsight, it appears that the corporate machine was supporting the inexperienced and the less able, but holding back the strong.

The Bad

By far the biggest problem with home working has been the lack of spontaneous conversations between colleagues. We have missed the chance conversations, unplanned questions, the ability to learn from colleagues, along with the training and camaraderie that the office provides. At its best, an office can be a cauldron for new ideas and enhanced collaboration.

Where problem solving requires large groups to work together, video calls have proved unwieldy, frustrating and inefficient. Worst of all perhaps, large video calls have encouraged the proliferation of one of the business world's most damaging practices - death by deck: slideshow presentations that transform meetings from productive exchanges of ideas into boring, one-way lectures; with the "presenters" rattling through bullet points already visible to their stultified audience.

The Unknown - Home Working Going Forward

It is too early to judge how much working from home will become a permanent feature of life going forward. It will vary from department to department, job to job and person to person. Ultimately there will be a balance between home and office working; finding that balance will take time and care.

We will avoid edicts from the Boardroom that impose a one-size-fits-all solution for working from home. Instead, we will allow the balance between working from home and in the office to evolve over time, allowing each functional area (Buying, Design, Systems Development, etc.) to work its way towards the optimum working practices for its particular needs and its particular people. We will, however, set out some very clear simple principles which we expect people to follow when determining the balance between home and office working - above all else we need to be clear that the business must come first.

NEW BUSINESS DEVELOPMENTS

The lockdown has done nothing to impede the development of the new businesses we mentioned in our March Report (Total Platform, Licensing and Beauty). If anything, the upheaval has served to accelerate the rate of development, partly through giving us the time and space to develop new ideas, partly through opening our minds, and those of our potential partners, to new ways of collaborating in an industry that is changing faster than ever.

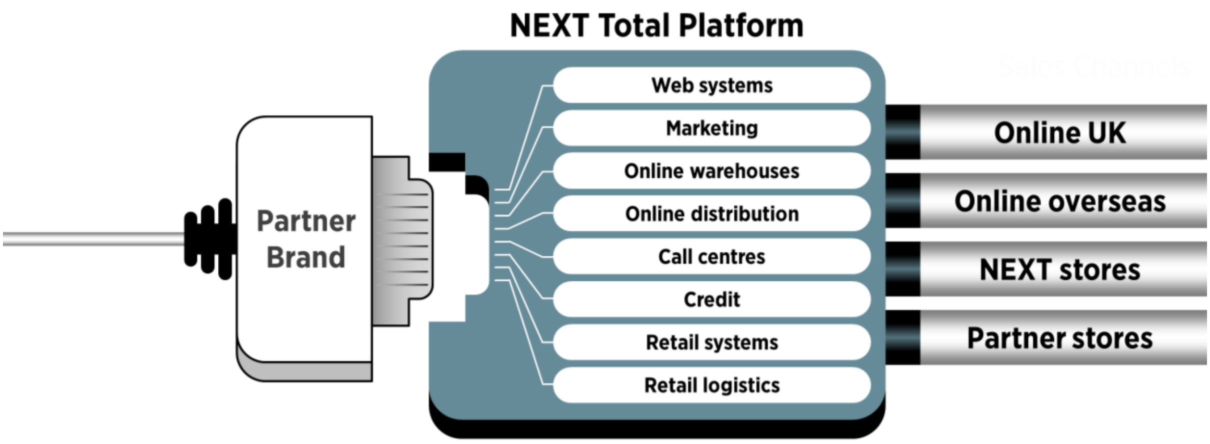
That said, there are clear boundaries to the ideas we will consider and beyond which we will not reach. New businesses must satisfy four simple tests. They must:

- Create **value** - for our customers and our clients
- Play to our **strengths**, assets and expertise
- Make a **margin** commensurate with the risk of the endeavour in question
- Make a healthy **return on capital**

Total Platform

We have recently launched our first Total Platform website for Childsplay Clothing, an online retailer specialising in luxury branded Childrenswear. The new site was launched on time and is working well.

The aim of Total Platform is to allow clients to grow their business without the capital costs, operational risks and management time associated with developing increasingly complex and expensive infrastructure. No one starts a new brand because they are passionate about warehousing and data protection! Total Platform allows brands to focus on the things they love doing and where they can add the most value - building their product ranges and developing their brand.



Total Platform services include: website systems, an online marketing platform, warehousing for boxed, hanging and palletised products, distribution networks (including to our c.500 stores), returns handling, call centre services, account management systems, payment systems, credit facilities, data management and security systems, international websites and other online infrastructure along with our marketing and operational know-how. We have recently extended the scope of our services to include retail warehousing and distribution alongside the use of our proprietary point-of-sale software.

Total Platform is a **pay-as-you-go** answer to operating an online business. Clients pay through a simple commission on sales, so there are no uncomfortable step-change increases in fixed costs and no capital requirements to support growth. No one needs reminding that fashion is a volatile business and the variable cost base also serves to protect the client should they have a difficult year. And, of course, the commission model has one other vital function: it aligns our interests with those of our clients; if they do well, so do we.

Victoria's Secret UK and Eire Licence

Victoria's Secret and Pink are leading Lingerie and Beauty brands owned by Lbrands, a public limited company based in the United States. We have agreed terms with Lbrands to set up a joint venture selling Victoria's Secret and Pink products under licence in the UK and Eire. *This agreement is subject to and contingent upon regulatory approval*. Subject to, and contingent upon, that approval, the joint venture aims to operate through the following routes to market in the UK and Eire:

- Around 18 Victoria's Secret stand-alone stores
- Select ranges sold on concession in selected NEXT stores
- A dedicated *Total Platform* Victoria's Secret website (UK and Eire only)
- Through LABEL on the next.co.uk website

The deal has been led by our Lipsy subsidiary and NEXT's share of the joint venture's profits will be reported as part of Lipsy's Profit and Loss account.

Online Commercial Terms in Outline

Lbrands will sell stock to the UK joint venture at cost. Sales of goods online, whether through LABEL or Total Platform, will require the joint venture to pay: (1) a royalty fee to Lbrands and (2) a commission to NEXT. These arrangements have been negotiated so that Lbrands and NEXT make broadly the same profit on the joint venture's operations.

Retail Commercial Terms in Outline

Retail services, such as warehousing, systems and distribution, will be provided to the joint venture by NEXT through our Total Platform. These services will be recharged to the joint venture at cost. Sales through physical stores will not incur a royalty fee. The profit generated by the joint venture is shared between NEXT and Lbrands.

Licensing

Our licensing business aims to marry our specialist sourcing and quality control with the design flair of partner brands, allowing partners to venture into areas where specialist knowledge or lack of scale are barriers to entry. We are focussing mainly on Childrenswear, selected Homeware categories, swimwear and men's formalwear and have licensing agreements in place with six companies.

We expect full price sales of licensed products this year to be c.£12m, generating £2m of profit. On an annualised basis we expect full price sales to be c.£25m and to generate £5m of profit. We expect to continue increasing the number of license partners we collaborate with as the year progresses.

Branded Beauty

We have significantly increased the breadth of our beauty offer and we now sell over 280 beauty brands. In the first half we added 43 brands, including Tom Ford, Versace and Liz Earle. We expect to add more key brands as the year progresses, including YSL, Bobbi Brown, Urban Decay, Giorgio Armani Beauty, Too Faced, Lancôme, Kiehl's, Mugler and Viktor & Rolf.

Our Online Branded Beauty business grew in the first half by +19% despite the lockdown. Over the last thirteen weeks it has experienced much stronger growth of around +60% and we are forecasting this level of growth to continue in the second half.

Beauty Halls Trial

We have agreed to work in partnership with the landlords of four locations to create a new large Beauty and Home store concept. These stores will offer Branded Beauty counters and fragrance alongside our Home range and a selection of Women's accessories, gifts and lingerie. We aim to open stores in Watford, Milton Keynes and Gateshead Metro Centre during October with Reading opening before Christmas.

FOCUS ON THE NEXT BRAND

The Beer….

There is risk that the excitement around new business projects might distract us from our most important tasks. In these situations, it is not uncommon for the froth to take precedence over the beer! We remain acutely aware that our primary task is the continued development of the NEXT brand. At the heart of the brand are our product ranges. No new venture can be allowed to detract from the buying, design and merchandising of our NEXT product ranges.

It should give shareholders some comfort that the main Product divisions and their leadership are not generally involved in the development of these new business areas. The only exception being some of the newer and smaller licence areas where their expertise is valuable.

The leadership of our LABEL division is taking responsibility for developing client relationships for Total Platform, which ties in well with the relationships they have already established with our LABEL partners.

The Development of Our Ranges

The pandemic has made it hard to assess the underlying performance of our product ranges; the disruption serves to hide our mistakes and triumphs in equal measure! As always, there have been errors and omissions, but in general we have been very happy with the ranges we have developed for this first half and, in some areas, we have seen a flourishing of creativity.

As mentioned above, in many areas, the pandemic has served to further encourage the innovation and independence of action we have sought to foster for some time. Our teams have, more than ever, tested the boundaries of their product ranges: pushing the breadth of styles they develop and the categories they sell. They have broadened their supply bases, in some cases sourcing better design and quality, in others faster lead times. Often, in doing so, they have also stretched their price architectures.

SUMMARY

Standing as we are, in the midst of the pandemic, with no sign yet of abatement or vaccine, it might seem odd that the essential tone of this report is optimistic. Particularly, some might say, coming from NEXT.

But our confidence in the future is *not* because we see a comfortable route through to the end of the pandemic. The prospects for the next six months remain as uncertain as the outlook for the virus itself; never has our guidance been more tentative or as broad in its possible outcomes.

But in all our guidance scenarios the Group generates a profit, generates cash and reduces its debts. So we can look to the end of this extraordinary time – whenever that may be – in the belief that we can build on the strength of the NEXT brand, its people and its infrastructure along with all the new opportunities those assets might deliver.

PART 2 - FINANCIAL PERFORMANCE

GROUP FINANCIAL PERFORMANCE[5]

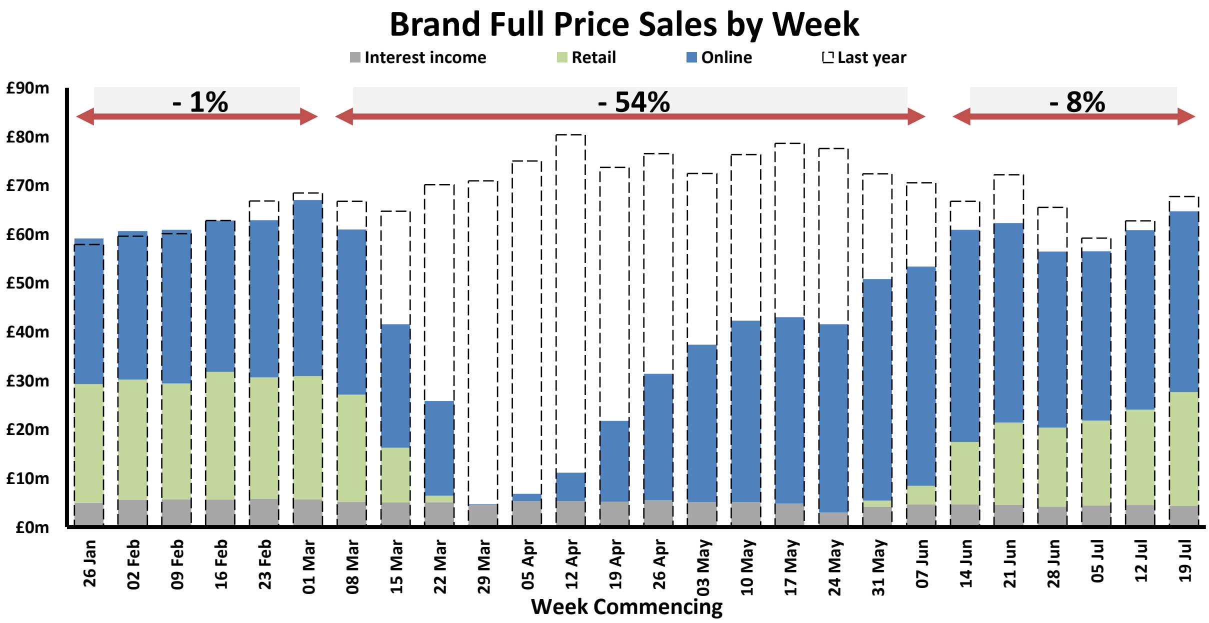
Brand full price sales in the first half of this year were down **-33%** on last year and total sales[6] (including markdown sales) were down **-34%**. Profit before tax in the first half of the year was **£9m** (on a pre-IFRS 16 basis) and we reduced our net debt by £347m to £765m.

Full price sales at the beginning of the second half have continued to exceed our expectations and we have revised our central scenario for full year profit, up from £195m to £300m (see page 40).

SALES

TOTAL SALES £m	July 2020	July 2019	
Online	862.6	1,004.9	- 14%
Retail	344.6	874.3	- 61%
Finance	127.9	134.0	- 5%
Brand	**1,335.1**	**2,013.2**	**- 34%**
Other	21.7	45.6	- 52%
Total Group sales	**1,356.8**	**2,058.8**	**- 34%**

Brand full price sales by week are shown in the graph below. The solid bars show this year's full price sales, the blue show our Online sales, the green Retail sales and the grey bars show interest income. The first half can be separated into three parts: (1) pre-lockdown when full price sales were down -1%, a little below our expectations as flooding (Storm Dennis) and pre-COVID nerves hindered sales, (2) lockdown, when sales were down -54% due to the closure of Retail stores and disruption to our warehouse operations and (3) post-lockdown when full price sales were down -8%.



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[5] The figures presented in this section are those used by management to monitor and assess business performance. They are not statutory measures. A reconciliation to the statutory equivalents is provided in the Appendix on page 41.

[6] Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 3 of the financial statements).

PROFIT, CASH FLOW AND NET DEBT

PROFIT £m and EPS (pre-IFRS 16)	July 2020	July 2019	
Online	128	177	- 28%
Retail	(175)	56	- 413%
Finance (after charging interest)	59	76	- 22%
Brand	**12**	**309**	**- 96%**
Sourcing, Property and Other[7]	(2)	14	
Group recharge of interest from Finance business	20	18	
Operating profit before interest	30	341	- 91%
Net external interest	(21)	(21)	
Profit before tax	**9**	**320**	**- 97%**
Taxation (see page 17)	6	(59)	
Profit after tax	**15**	**261**	
Earnings Per Share	**11.8p**	**199.5p**	

CASH FLOW AND NET DEBT £m	July 2020	July 2019	
Cash inflow/(outflow)	347	(97)	
Net financial debt (excluding leases)	**765**	**1,193**	**- 36%**

NON-RECURRING PROFIT & LOSS ITEMS

Within the £9m of profit before tax reported above, there are a number of significant, non-recurring items. In total, these reduced profit by -£27m. These items are set out below, with further details given after the table.

£m	First half profit impact (pre-IFRS 16)
Property profit from the sale and leaseback of properties[8]	+37
Business rates reduction	+32
Property provisions for store impairment and onerous leases	- 37
Stock provisions and fabric	- 39
Bad debt provisions	- 20
Total profit impact	**- 27**

Property Profit

One of the actions we took to generate cash in the first half involved the sale and leaseback of a warehouse complex and our head office. These transactions generated a net profit of £37m[8] (the difference between the sale price of £147m and the book value of the assets sold). We expect to generate a further £10m of property profit in the second half (see page 34).

[7] Other profit includes Franchise, Lipsy, and other Group costs (page 32).

[8] Under IFRS 16 the difference between the cash proceeds and the asset sold of £37m is not recognised as a gain in the year. Instead, the gain is £7m with the difference recognised in lower costs over the remaining lease term. The cash benefit and P&L impact over the lease term is the same. See page 42.

Business Rates Reduction

The Government's decision to halt business rates for retail properties this year saved £32m in the first half.

Property Provisions for Store Impairment and Onerous Leases

We anticipate that a number of stores will not fully recover to pre-COVID sales levels and have accelerated our internal forecasts for the rate of sales decline in those locations. As a result, we have taken provisions in 20 stores where we now anticipate we will make a cash loss over the remaining term of their leases. The £37m charge is a combination of a £6m write down of store assets and a £31m provision for future cash losses.

Stock Provisions and Fabric

We have made additional stock provisions, in our Retail and Online businesses, of £39m, increasing our total provisions on stock from 9% of cost to 14%. This includes additional provisions for: (1) Spring Summer 2020 stock which has been hibernated until Spring Summer 2021, (2) clearance stock where we expect reduced recovery rates and (3) fabric that might not be converted into garments and compensation payments. The table below sets out the relevant quantities and provisions. Note that the provision against clearance stock is *over and above* the usual 70% write down we make on stock at the end of our Sale events.

Type of stock	Cost price of stock	Additional provision	% Cost
Hibernated stock carried from SS20 to SS21	£50m	£12m	24%
Clearance stock	£61m	£8m	13%
Fabric provisions and compensation payments	£28m	£19m	68%
Total	**£139m**	**£39m**	**28%**

Bad Debt Provisions

In the first half we have made a £20m provision for potential future write-offs that may arise because of the economic impact of COVID. To date, we have not seen any deterioration in overall payment rates, but there is a risk that this will change when the Government furlough scheme comes to an end in October. Further details are given in the NEXT Finance section on page 28.

OVERVIEW OF CHANGES IN GROUP SALES, COSTS AND PROFIT

The table below explains how lost sales have flowed through to reduce profit. Without remedial action, the £702m of lost sales would have reduced profit by nearly the same amount; this is because we had already bought the stock to achieve those sales. This potential loss was mitigated by reducing the cost of stock by £220m[9], saving £102m of wage costs, the suspension of marketing programmes, and savings in occupancy costs such as electricity and service charge. In addition, the Government's business rates holiday reduced costs in the half by £32m.

£m	**Profit impact July 20 vs July 19**
Total lost sales (VAT ex)	- 702
Reduction in cost of stock	+220
Reduced wages	+102
Reduced occupancy costs	+45
Marketing costs	+21
Other operational cost savings and Group items	+ 3
Total lost profit	**- 311**

TAXATION

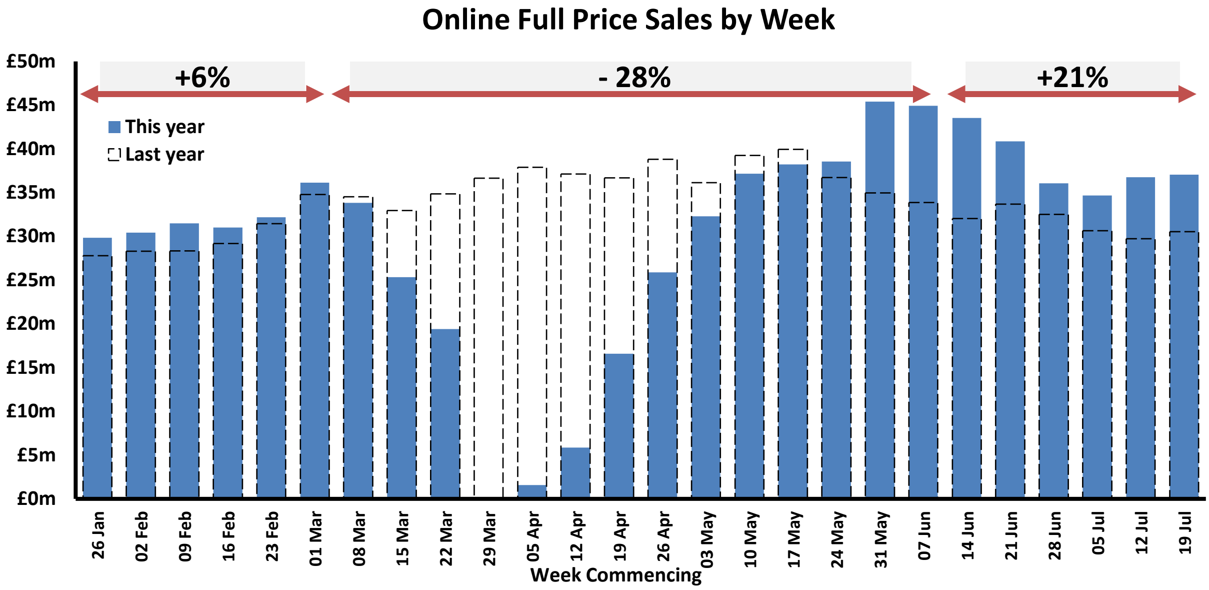
In the first half, Group profit before tax is £9m and the tax charge is a credit of £6m. This tax credit is largely due to the removal of the £37m gain on the sale of the warehouse complex from profit before tax when calculating the tax charge. This £37m gain does not incur a tax charge, mainly due to HMRC's indexation allowances and, to a lesser degree, historical capital losses. The remaining accounting loss of -£28m has an Effective Tax Rate of around 19%, which is consistent with the headline UK Corporation Tax rate. This tax credit will be offset within the calculation of tax in the second half.

[9] This saving on cost of stock is net of stock provisions.

NEXT ONLINE

FULL PRICE SALES BY WEEK

The chart below sets out Online full price sales by week. The solid blue bars show this year's full price sales and the black dotted line shows last year. At the beginning of the COVID period in March we saw a steep decline in demand as consumers hunkered down. In mid-March, as the lockdown intensified, we took the decision to close our warehouses and Online operations to make them COVID safe.



Our warehouses remained closed for two weeks. It then took us a further five weeks to ramp up operations as we slowly re-inducted and retrained our staff to work in a socially distanced environment. From the end of May, sales were significantly better than the pre-COVID period, even once our stores had reopened. We believe that this was because of (1) continuing sales transfer from our stores and (2) fewer people travelling overseas for their holidays.

FULL PRICE SALES BY DIVISION

Online full price sales in the first half of the year were down -11%. The table below sets out the *full price* sales performance by division.

Full price sales £m	**July 2020**	**July 2019**	**Var %**
NEXT Brand UK	423	469	- 10%
LABEL UK	158	199	- 21%
Total UK Online	***581***	***668***	***- 13%***
Overseas	204	212	- 3%
Total Online full price sales	**785**	**880**	**- 11%**

LABEL UK was particularly affected by the lack of demand for occasion and party clothing along with some stock shortages as partners were unable to reinstate orders we had cancelled. Within the LABEL UK numbers Lipsy, which is heavily dependent on occasion dresses, was down -48%. Excluding Lipsy, LABEL UK sales were down -12% and more in line with NEXT Brand UK. Overseas sales have held up well, though performance by region has been very varied (see page 22).

ONLINE TOTAL SALES AND PROFIT BY DIVISION

In the first half, total Online sales (including markdown sales) were down -14% and Online profit was £128m, down -28% on last year. Sales and profit by division are set out below, along with the change versus last year.

Online division	Sales £m July 2020	Sales vs July 2019	Profit £m July 2020	Profit vs July 2019
NEXT Brand UK	472	- 14%	84	- 22%
LABEL UK	177	- 25%	16	- 53%
Overseas	214	- 2%	28	- 22%
Total Online	**863**	**- 14%**	**128**	**- 28%**

Profit Walk Forward

The table below sets out how the lost sales translate into lost profit after accounting for various cost savings. The paragraphs following the table explain some of the movements in costs.

£m	Profit impact July 2020 vs July 2019
Full price sales (VAT ex)	- 95
Markdown sales (VAT ex)	- 47
Total lost sales (VAT ex)	**- 142**
Reduction in cost of stock	+45
Reduced wages	+32
Reduced marketing costs	+21
Logistics costs	- 5
Total lost profit	**- 49**

Wage costs (+£32m)

Most of this saving relates to warehousing and distribution. Some support teams in the contact centre and other Head Office departments were also furloughed.

Marketing (+£21m)

We stopped digital marketing when our warehouse capacity was less than daily demand. In addition, we stopped printing catalogues and spent less on photography.

Logistics (- £5m)

The logistics cost increase was the net effect of savings from lower parcel volumes, offset by the frictional costs associated with working through the pandemic. The costs and savings are set out in the table below.

£m	Profit impact July 2020 vs July 2019
Parcel volume reductions	+7
Increase in international parcel distribution costs	- 5
Temporary storage and other temporary costs	- 3
PPE, warehouse COVID set up and other costs	- 4
Total profit impact of logistics costs	**- 5**

MARKDOWN SALES

Stock marked down for Online Sale events was down -14% on last year. Total Online markdown sales were down -38% on last year, significantly more than the reduction in surplus stock, for three reasons:

1. We were unable to service the mid-season Sale in late March as a result of the closure of our warehouse, so the majority of orders were cancelled
2. We have deliberately limited the availability of Clearance stock on our website so that we can focus our limited warehousing capacity on servicing full price sales
3. End of season Sale orders placed in July took longer to despatch from our warehouses than last year, so £6m additional markdown sales will be recognised after the reporting period. Excluding this timing difference, markdown sales were down -31%.

CUSTOMER BASE

Despite the fact that our sales fell in the half, average active customers[10] increased by +1.9% to 6 million, driven by growth in UK cash customers. Cash customers are those who do not use our next**pay** credit account when ordering. We believe that the increase in cash customers can be attributed to Retail customers who switched to ordering Online when stores were closed. The table below sets out the respective parts of our customer base.

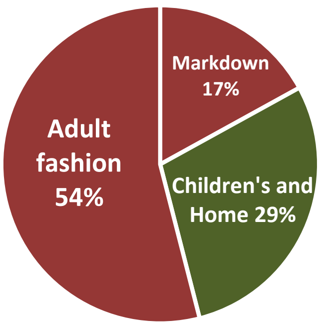
Average active customers (m)	July 2020	July 2019	Var %
UK credit	2.57	2.57	+0.1%
UK cash	2.09	1.97	+5.7%
Total UK	**4.66**	**4.54**	**+2.5%**
Overseas cash	1.34	1.34	- 0.1%
Total	**6.00**	**5.88**	**+1.9%**

Divergence in Performance of UK Credit and UK Cash Sales

There was a significant difference between the performance of Online credit and cash sales. UK Online credit sales were down -25% and cash sales were up +12%. The main reason for the discrepancy comes down to the mix of products sold during lockdown. Credit sales tend to be focussed on two areas: (1) more expensive adult clothing and (2) markdown stock; both areas performed badly during lockdown.

UK total sales (inc. markdown) £m	July 2020	July 2019	Var %
Credit	463	619	- 25%
Cash	185	166	+12%
UK total sales (inc. markdown)	**648**	**785**	**- 17%**
Online credit participation %	*71%*	*79%*	

UK Online Credit Sales by Product Type
(Six months to July 2019)



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

FOCUS ON LABEL

Our third-party branded business has become a broad offer stretching from perfume to trainers. The table below aims to give an understanding of our full price sales performance by product category. The performance of the different categories reflects the shift in lockdown consumer preferences. Home and Beauty performed exceptionally well.

Sportswear did much better than clothing, though our sales were significantly inhibited by the lack of stock. Other (non-Lipsy) fashion clothing underperformed, as a result of stock shortages and because much of our branded products are purchased for special occasions and parties - both of which have been in short supply! Lipsy sales are dominated by its going out dress ranges and was hit particularly hard.

Full price sales £m	July 2020	July 2019	Var %
Clothing	83	126	- 34%
Fashion	*58*	*79*	*- 26%*
Lipsy	*25*	*47*	*- 48%*
Sports	46	49	- 7%
Home	21	17	+27%
Branded Beauty	8	7	+19%
Total full price sales	**158**	**199**	**- 21%**

The Development of Platform Plus

At the start of 2019 we enabled our customers to order items from our partners' warehouses through our Platform Plus system. This has allowed us to significantly increase the breadth of offer from participating brands and, on average, Platform Plus boosted partner brand sales by around +15%.

The Platform Plus functionality falls into two categories:

Delivered by NEXT: Items that we collect from our partners' warehouses and deliver through our logistics network, so that they can be consolidated with other items in the same order.

Direct Despatch: Large Home items that are directly despatched to the customer by the third-party brand through their own networks.

The table below sets out this year's forecast growth in brands and sales for both categories of Platform Plus products.

	Jan 21(e) No. of brands	Jan 20 No. of brands		Jan 21(e) £m annual sales	Jan 20 £m annual sales	
Delivered by NEXT	77	24	+221%	34	11	+209%
Direct Despatch	83	61	+36%	22	14	+57%
Total	**160**	**85**	**+88%**	**56**	**25**	**+124%**

We are developing Platform Plus capabilities to estimate future demand on popular items, so that we can call off those lines and hold stock in our own warehouses in anticipation of future orders. This system will be rolled out to at least 24 brands over the coming months.

FOCUS ON ONLINE OVERSEAS SALES

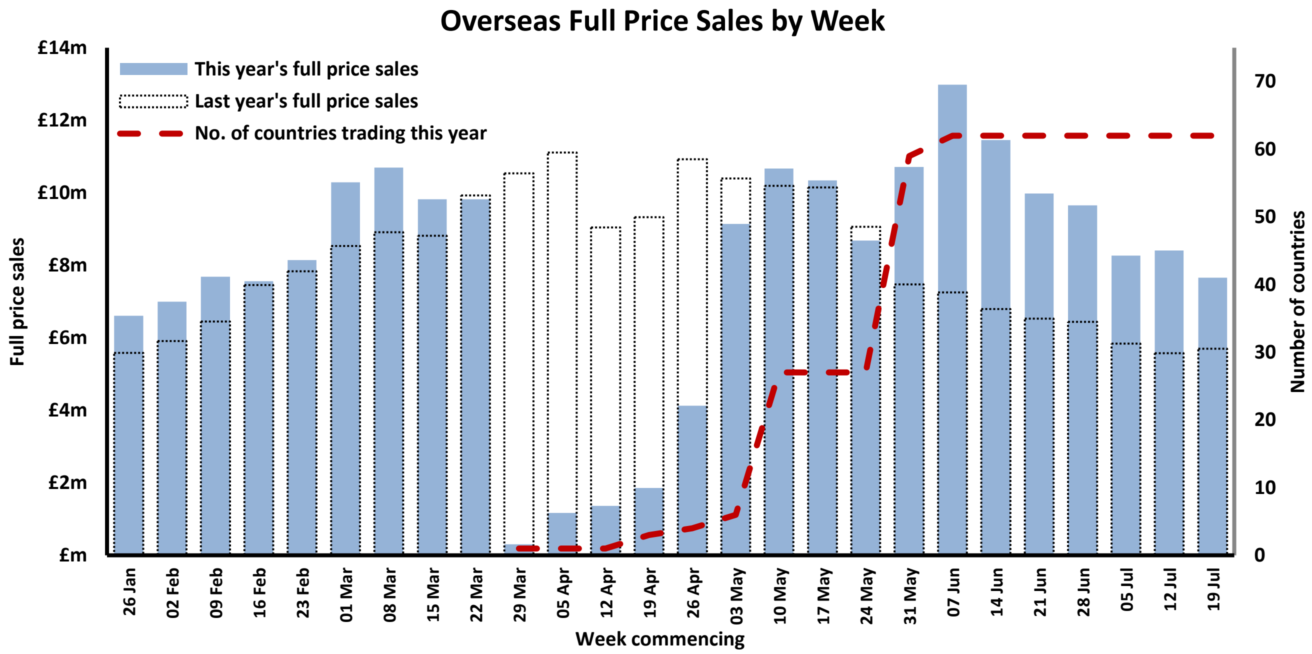
A Half of Two Halves!

The overall performance of our Overseas business is a little misleading and hides the underlying strength of the business. The performance by quarter is set out below.

Full price sales £m	July 2020	July 2019	Var %
Quarter 1 to 25 April	82	110	- 25%
Quarter 2 to 25 July	122	102	+19%
First half total full price sales	**204**	**212**	**- 3%**

In the first quarter, operational constraints meant we prioritised the fulfilment of higher margin UK orders and many of our Overseas sites remained closed after we had reopened the UK website. In addition, we were not able to properly replenish our Overseas warehouses in Russia and Germany for several weeks after UK operations had resumed. By the beginning of June, our Overseas operations were back to near normal levels of service and sales recovered very strongly.

The chart below shows weekly full price sales and the number of countries that were trading in each week. The blue bars show this year's sales and the black lines show last year. The red dotted line shows the number of countries trading in each week from the end of March onwards (right hand axis).



We have yet to relaunch in eight small countries that account for less than 0.5% of our Overseas sales. These countries, along with a further 60 new small territories, will be serviced by a single dollar-denominated "Rest-of-World" website, which we aim to launch later this year.

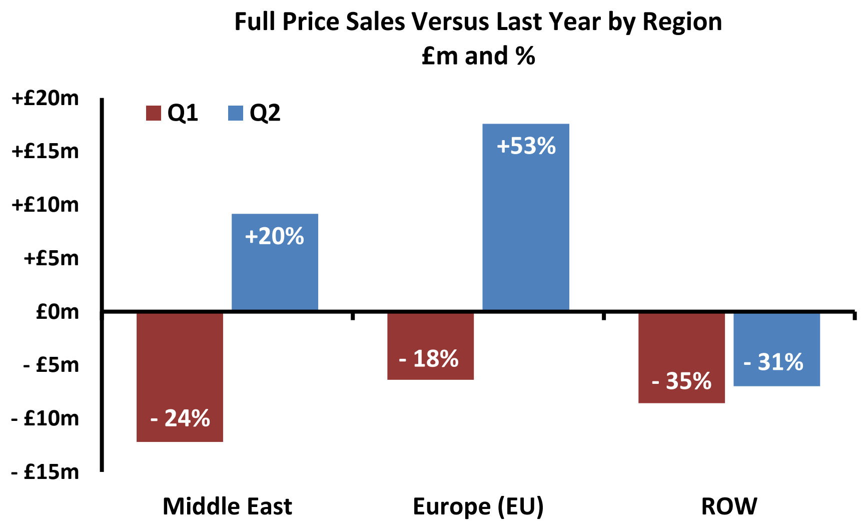
The Growing Importance of Third-Party Websites

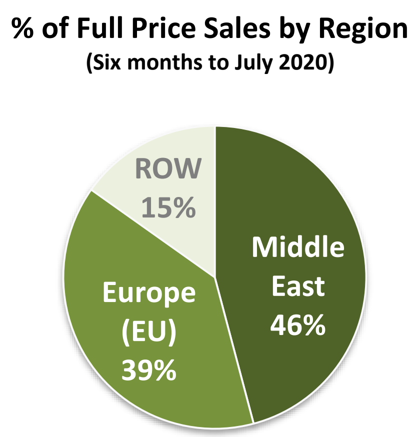
The table below compares the performance of Overseas sales on our own nextdirect.com website with sales through third-party aggregators such as Zalando (including Zalando Fulfilment Solutions), Otto Versant and others. Third-party sales were strong throughout the half but particularly good in the second quarter, with like-for-like third-parties up +84% on last year. This year we have significantly increased the number of items sold by third-parties, which we believe has helped drive sales growth. We believe that overseas lockdowns drove more people to local aggregation sites and as a result more customers found the NEXT brand.

Full price sales £m	**July 2020**	**July 2019**	**Var %**	**Q1 %**	**Q2 %**
Third-parties					
New	4	-	-	-	-
Continuous	23	18	*+31%*	- 18%	+84%
Total third-parties	27	18	*+55%*	+18%	+94%
nextdirect.com	177	194	*- 9%*	- 29%	+13%
Total Overseas full price sales	**204**	**212**	***- 3%***	**- 25%**	**+19%**

Full Price Sales by Geographical Region

Sales in the first quarter struggled across all regions, but in the second quarter we have seen encouraging growth in our largest regions of Europe and the Middle East. The remaining regions have been significantly affected by longer lead times and the increased delivery charges we have had to impose due to restricted flight availability and freight surcharges charged by our carriers.





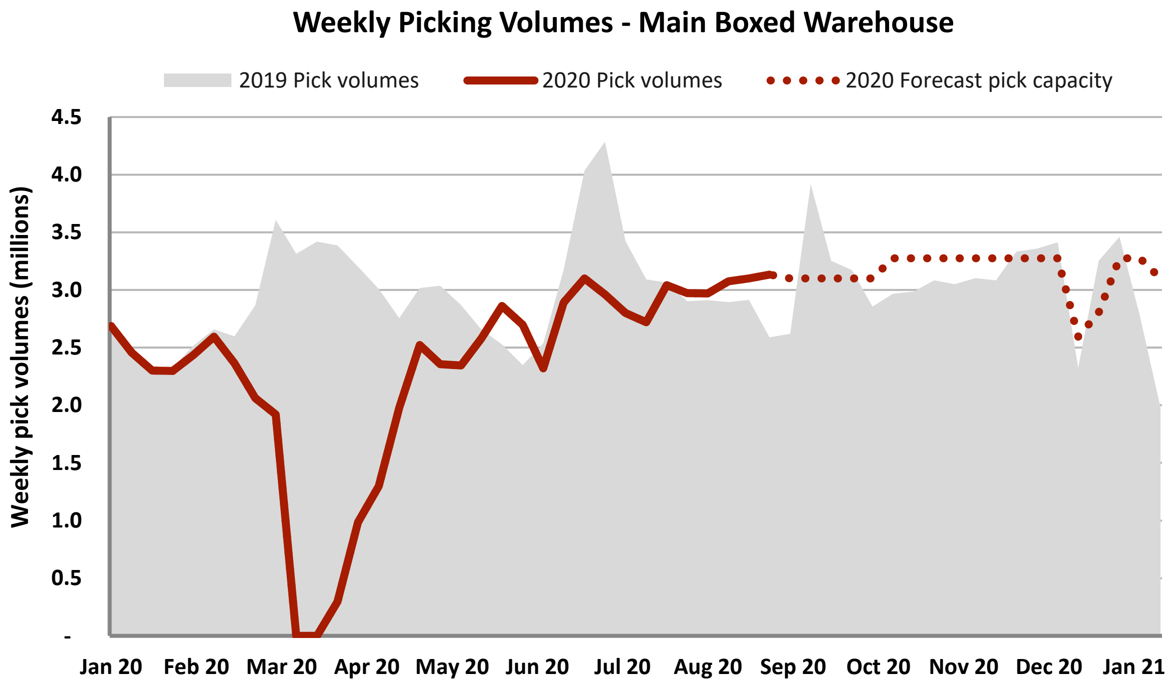
ONLINE WAREHOUSE CAPACITY

In our July Trading Statement we explained how our warehouses had built back their capacity to levels approaching last year's output, despite the restrictions of working within social distancing requirements. Part of this improvement has come from the higher levels of efficiency we have achieved during lockdown. These output levels, when combined with lower levels of customer returns, mean that we have been able to exceed last year's Online sales in many weeks.

Keeping up with demand as sales ramp up in the Autumn/Winter season will remain extremely challenging and we will have to work hard to increase our output capacities as the year progresses. To that end, we will do the following:

- Realign all our shifts to maximise the use of the warehouse during the parts of the day and night that are traditionally quiet (for example, in the early hours of the morning)
- Commission a fifth boxed packing sorter in October, which will increase packing capacities by at least +15%
- Increase mechanical storage for reserve stock
- Increase in Online forward location storage for small Home product
- Build in increased mechanical resilience to reduce points of failure that can disrupt operations

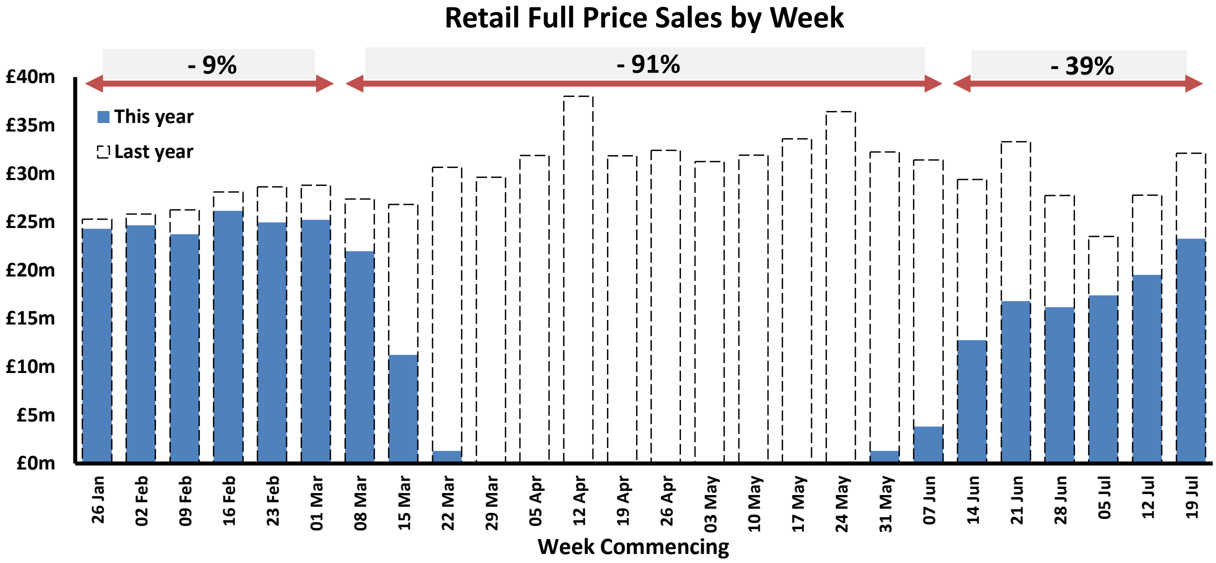
The graph below shows last year's warehouse pick volumes (grey shaded area) compared to our actual pick volumes this year (red line) and those we anticipate as the year progresses (red dotted line).



NEXT RETAIL

FULL PRICE SALES BY WEEK

The chart below shows full price sales by week. The blue bars show this year's sales and the dotted black line shows last year. For the first half full price sales were down -62% on last year. In the first six weeks, prior to the period of lockdown, full price sales were down -9% and slightly below our expectations of -6%. Stores gradually reopened following lockdown and in the last six weeks of the first half, full price sales were down -39% (-32% on a like-for-like basis).



TOTAL SALES AND PROFIT/LOSS

Total sales (including markdown sales) were down -61% resulting in a loss of -£175m.

£m	July 2020	July 2019	Var %	Var £m
Total sales	345	874	- 61%	- 529
Operating profit/(loss)	(175)	56	- 413%	- 231

The following table sets out the change in sales and costs for the first half versus last year. Following the closure of our stores, we took several actions to manage and reduce costs in order to preserve cash. Further details of the main cost categories are given after the table.

Profit walk forward £m	Profit impact July 2020 vs July 2019
Full price sales (VAT ex)	- 488
Markdown sales (VAT ex)	- 41
Total lost sales (VAT ex)	**- 529**
Reduction in cost of stock	+173
Reduced wages	+70
Reduced occupancy costs	+45
Store impairment/depreciation	- 2
Other operational savings	+12
Total lost profit	**- 231**

Wage Costs (+£70m)
Wage costs reduced by £70m due to savings made during lockdown, when almost all Retail store staff and support teams were furloughed, and lower staff incentives.

3,500 store staff currently remain on the Government furlough scheme, though more than half are now back working on a part-time basis. Furloughed hours currently represent 6% of our total contracted hours in Retail stores and we anticipate that the vast majority of staff will be required as trade builds in the run up to Christmas.

Occupancy Costs (+£45m)
Occupancy costs, which comprise rents, rates, service charge, utilities and maintenance, were £45m lower than last year. Most of this saving was a result of the Government business rates cut that saved £32m in the first half.

We paid our rent as per our contractual obligations, in full and on time. The total rent charge was £6m lower than last year, partly as a result of the rent reductions we have negotiated at lease renewals and partly as a result of stores that closed during the last twelve months. Rent savings were offset by a £2m loss of rental income from concessions (mainly cafes and travel agents) during the period of store closures. Maintenance, service charge and utilities costs fell by £9m while the stores were closed.

Impairment and Depreciation (-£2m)
Following the drop in sales, we have impaired store assets with a value of £6m; this compares with zero impairment in the first half of last year. This cost increase has been offset by a £4m fall in depreciation, as assets in existing stores have been fully depreciated. (Please note that, in addition to this impairment, a £31m provision for onerous leases has been made in the Property Management division of the Group, see page 33.)

Other Operational Savings (+£12m)
We made savings in Retail logistics and other costs that vary with sales such as consumables and credit card fees.

RETAIL SPACE AND LEASE COMMITMENTS

This year we expect to increase net retail space by +114,000 square feet and reduce the number of stores by one. The year-on-year change in store numbers and square footage is set out below. The main addition to space this year will be the opening of four NEXT Beauty Halls; further details of the development of our Branded Beauty business are given on page 11.

	Store numbers	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
January 2020	**498**	**8,031**	**361**	**8,392**
New Mainline stores	+2	+12	+6	+18
New NEXT Beauty Halls	+4	+154	-	+154
Mainline closures	- 13	- 135	-	- 135
Clearance stores	+6	+77	-	+77
January 2021[(e)]	**497**	**8,139**	**367**	**8,506**
Change	- 1	+108	+6	+114
Change %		+1.3%	+1.5%	+1.4%

Closures

We expect to close 13 mainline stores this year, one less closure than we forecast in March. Together these stores turned over £26m per annum. The net profit impact of closing these stores, after accounting for a 20% transfer of trade to other NEXT stores, would be a loss of around £1m per annum, assuming sales remained at the level they were in 2019.

Lease Renewals

This year we expect to renew 60 store leases and extend their lease term by an average of 3.5 years. Based on our negotiations so far we anticipate that, on average, rent in these stores will fall by -50%, saving £9.9m per annum. Eighteen of these lease renewals are linked to store turnover, rather than a fixed rent, meaning that we can be more confident in the store's longer term future.

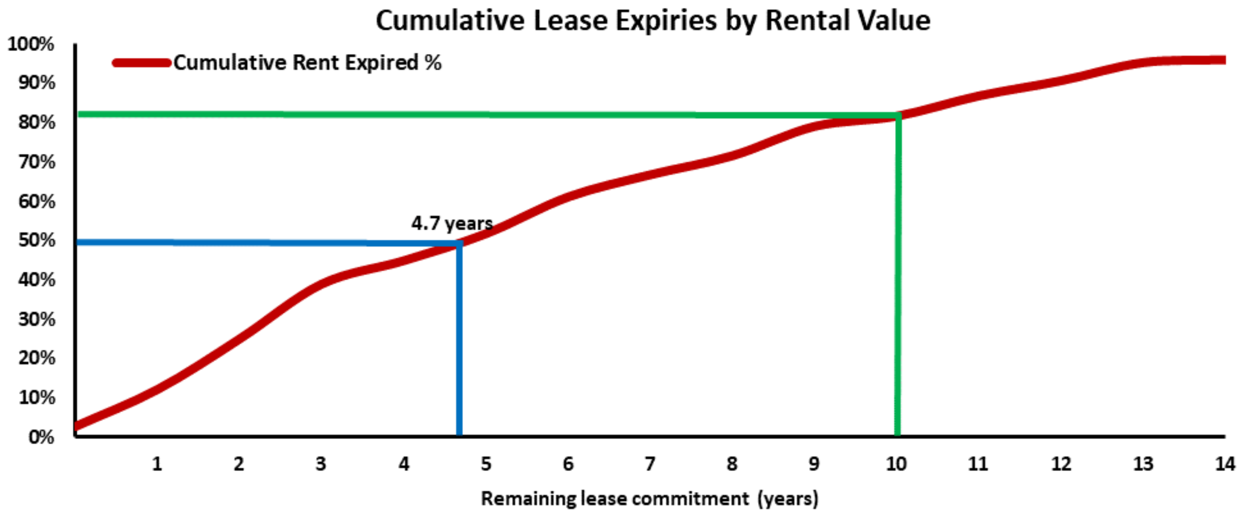
Assuming that store sales in 2021 settle at a level that is 20% down on 2019 (i.e. pre-COVID), then we would expect these stores to make a net branch profit of 24%, before accounting for central overheads. When negotiating new leases, we stress test each store on the basis it will experience a like-for-like decline of -10% each year going forward. The initial rent (and resulting profitability) is negotiated to ensure the store remains profitable through the term of the lease. To that extent we are able to agree longer leases in return for lower or variable levels of rent.

We expect to receive £5.3m of capital contributions or rent-free incentives and will invest £6.8m upgrading these stores to ensure they remain a credit to our brand.

60 store renewals January 2021 [(e)]	**Before renewal**	**After renewal**	
Rental costs £m[11]	£19.6m	£9.7m	- 50%
Net rent/sales (VAT inc.)	10.8%	5.3%	
Average branch profitability (before central overheads)	16%	24%	+8%
Rent-free incentive/capital contributions		£5.3m	
Average lease term (to earlier of break or lease end)		3.5 years	

Lease Commitments

At the end of July our average lease commitment (weighted by value) was 5.5 years, compared with 5.9 years at the same time last year. Fifty per cent of our store leases (by value) will expire or break within 4.7 years and 82% within the next ten years.



[11] Rental costs include the release of any capital contributions or rent-free incentives, over the term of the lease, which will not be used to fund the refit of the stores being renewed. Excluding the release of surplus capital contributions, rent is forecast to decline by -48%.

NEXT FINANCE

HEADLINES

- NEXT Finance profit was £59m, down -22% on last year driven by reduced interest income and higher bad debt provisions
- Profit for the full year is forecast to be £107m, down -27% on last year
- Forecast closing customer receivables of £1bn, down -18% on last year
- Customer payments have continued at the same rate as last year

The table below sets out the performance of the finance business in the first half and an estimate of the performance for the full year. The full year estimate assumes that credit sales will be down -10% in the second half.

	First half actual			Full year estimate		
£m	**July 2020**	**July 2019**	**Var %**	**Jan 2021(e)**	**Jan 2020**	**Var %**
Note of credit sales[12]	*620*	*833*	*- 26%*	*1,441*	*1,748*	*- 18%*
Interest income	128	134	- 5%	241	269	- 10%
Bad debt charge	(29)	(19)	+53%	(51)	(43)	+18%
Overheads	(20)	(21)	- 9%	(40)	(42)	- 7%
Profit before cost of funding	**79**	**94**	**- 15%**	**150**	**183**	**- 18%**
Cost of funding	(20)	(18)	+14%	(43)	(36)	+20%
Net profit	**59**	**76**	**- 22%**	**107**	**147**	**- 27%**
Key metrics						
Average customer receivables	£1,094m	£1,167m	- 6%	£1,040m	£1,185m	- 12%
Closing customer receivables	£993m	£1,186m	- 16%	£1,009m	£1,234m	- 18%

IMPACT OF THE PANDEMIC

The pandemic has affected the NEXT Finance business and its profitability in the first half of this year in three ways:

- The number of **active credit customers** at July 2020 is down -3% on last year. This is due to reduced marketing activity and customers paying off their outstanding balance without making new purchases and becoming dormant (page 29).

- The fall in credit sales (page 20) has driven down the balance generating **interest income**. In the first half interest income was down -5%, a reduction of £6m on last year (page 29).

- In the first half, we have made an additional £20m **provision for bad debt**. This provision is to cover the cost of defaults which may arise as a result of the expected increase in unemployment following the end of the Government's furlough scheme (page 29).

[12] Credit sales are the sum of Online sales and Retail sales paid for using a next credit account, plus interest income.

Managing Customer Accounts During the Pandemic

We have made the following changes to how we manage our accounts and customer balances:

Emergency Support Plans

As required by the FCA, we have put Emergency Support Plans (ESPs) in place, which allow customers to pay just £1 per month for a three month period. In line with current FCA guidance, we will offer ESPs until October 2020. Around 13,000 customers are currently on an ESP, representing 0.5% of the active customer base and 2.5% of our receivables balance.

In addition, we suspended the £7.50 charge that is usually made when a customer falls two months into arrears. We expect this suspension to remain in place until at least November 2020.

Tightened Credit Control

In March, we suspended all credit limit increases. We are looking to start selective credit limit increases where we feel it is responsible to do so, and supported by both internal and external data.

CREDIT CUSTOMERS

At the start of the year, the number of active credit customers was up +2.5% on last year and by the end of July, was down -3%. The majority of the fall is due to existing customers not making a purchase during the season and becoming dormant. We restarted credit marketing to new and existing customers in August and have already arrested the decline in our customer base. We anticipate that our credit customer base will continue to recover during the second half.

Credit customers ('000)	**2020**	**2019**	**Var %**
Opening actives (January)	2,643	2,578	+2.5%
Average active credit customers	2,569	2,568	+0.1%
Closing actives (July)	2,482	2,559	- 3.0%

INTEREST INCOME

Interest income was down -5% on last year, broadly in line with the average customer receivables. For the full year, we forecast interest income to be down -10%, again broadly in line with our full year forecast for average customer receivables.

BAD DEBT

In the first half, the bad debt charge was £29m, £10m higher than last year. The change in bad debt rate was driven by three factors:

- Credit sales were down -26%, which reduced the provision required on new lending by £6m
- We collected £4m on debt that had previously been written off
- We have provided an extra £20m for potential future write-offs resulting from the economic impact of COVID

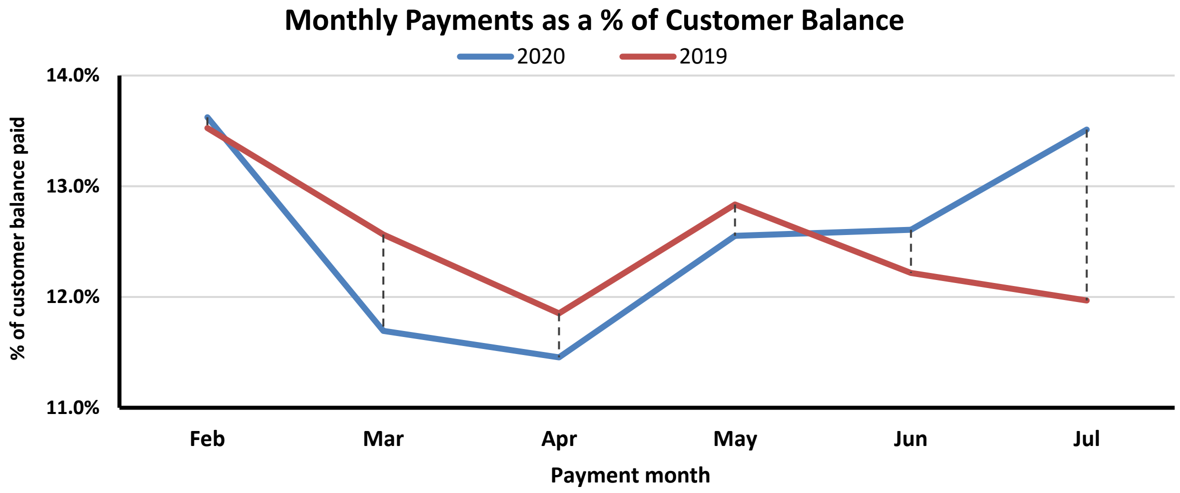
The following table details the bad debt charge in the first half and gives a forecast for the full year.

Bad debt walk forward £m	**6 months to July 2020**	**12 months to Jan 21[e]**
Last year's bad debt charge	**(19)**	**(43)**
Lower provision required due to lower credit sales	6	8
Sale of debt previously written off	4	4
Provision for potential defaults resulting from COVID	(20)	(20)
This year's bad debt charge	**(29)**	**(51)**

The additional £20m provision is to cover the risk of future losses and is not reflective of our experience to date. Leading indicators of write-offs, such as a fall in payments or an increase in defaults, have not yet materialised and currently remain in line with last year.

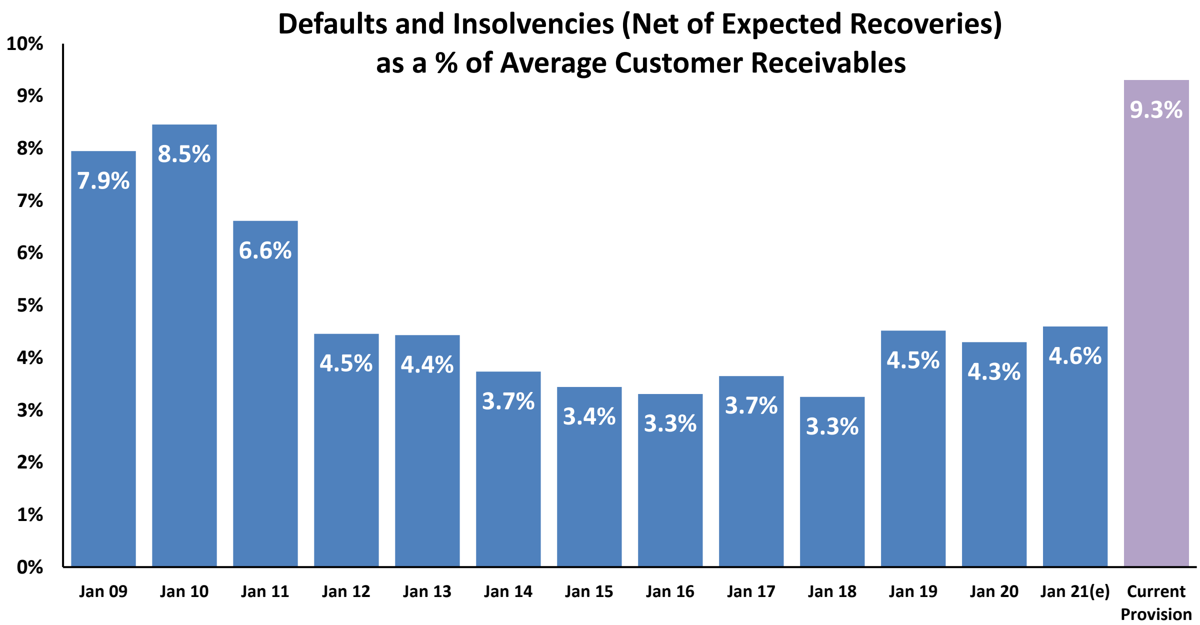
Payments and Defaults

Customer payments in the first half (as a percentage of their monthly balance) were in line with last year, at 12.5%. The rate of payment reduced during March when the pandemic first hit but significantly recovered in July and has remained strong in August. We believe that payment rates may reduce when the Government's furlough scheme ends in October.



Defaults (net of expected recoveries) were down -9% in the half year, better than the -6% reduction in the average receivables balance.

Our total provision for future defaults is 9.3% of our closing receivables balance. The following graph shows the last twelve years' history of defaults as a percentage of the receivables balance together with our expectation for this year. Viewed in this context and alongside current payment and default data, we believe that the provision rate of 9.3% is reasonable.



FINANCE BALANCE SHEET AND COST OF FUNDING

In the first half of the year, the cost of funding increased by £2.6m, despite the fact that our average receivables reduced by -6%. The cost of funding is a recharge from the Group based on the assumption that the Finance business funds 85% of its receivables balance with debt from the Group. The interest rate charged is determined by the average interest rate incurred by the Group.

This year the Group's average interest rate rose from 3.6% to 4.4%. This increase is due to a higher proportion of the Group's debt being funded by bonds, with little use of our less expensive revolving credit facility.

For completeness, the calculation for the cost of funding is set out below for the first six months of the year, together with our forecast for the full year.

Cost of funding calculation	July 2020	July 2019		Jan 2021[e]	Jan 2020	
Average customer receivables	£1,094m	£1,167m	- 6%	£1,040m	£1,185m	- 12%
Debt funding %	85%	85%		85%	85%	
Customer receivables funded by debt	**£930m**	**£992m**	**- 6%**	**£884m**	**£1,008m**	**- 12%**
Annual interest rate %	4.4%	3.6%		4.9%	3.6%	
Cost of funding for 6/12 months	**£20.4m**	**£17.8m**	**+14%**	**£43.4m**	**£36.3m**	**+20%**

OTHER BUSINESS ACTIVITY

The profits and losses from other business activities, including our other Group trading companies and non-trading activities, are summarised below. NEXT Sourcing (NS), Lipsy and our Franchise business all experienced significant reductions in sales and profits. As a result, profits from other activities have fallen from £14m last year to a loss of £2m this year. This section gives further details of each Group business and our non-trading activities.

£m	July 2020	July 2019
NEXT Sourcing (NS)	4.9	16.9
Franchise and Retail International	0.5	3.1
Lipsy	0.1	5.8
Non-trading activities	(7.4)	(11.6)
Total profit/(loss)	**(1.9)**	**14.2**

NEXT SOURCING

NS is our internal sourcing agent, which procures around 40% of NEXT branded product. NS charges an arm's length fixed commission on all stock sourced for NEXT. The table below sets out the performance of the business in Pounds and in Dollars.

Sales and profit are expected to improve in the second half of the year, and we expect NS to deliver a profit of around £15m for the full year.

	July 2020 £m	July 2019 £m		July 2020 USD m	July 2019 USD m	
Sales (mainly inter-company)	153.5	266.1	- 42%	193.5	343.3	- 44%
Operating profit	**4.9**	**16.9**	**- 71%**	**6.2**	**21.7**	**- 71%**
Net margin	**3.2%**	**6.3%**		**3.2%**	**6.3%**	
Exchange rate	1.26	1.29				

FRANCHISE STORES AND INTERNATIONAL RETAIL

Our Franchise partners currently operate 183 stores in 35 countries, and we have one wholly owned store in the Czech Republic. Sales were significantly affected by COVID lockdowns in most of the territories in which our Franchise partners operate. Revenue and profit are set out in the table below.

£m	July 2020	July 2019	Var %
Franchise income	11.6	26.2	- 56%
Own store sales	0.4	2.7	- 85%
Total revenue	**12.0**	**28.9**	**- 58%**
Operating profit	**0.5**	**3.1**	**- 83%**

We expect both sales and profit to fall by -20% in the second half and we anticipate that profit in the full year will be around £3m.

LIPSY

Lipsy is our wholly owned subsidiary which sells Lipsy's own women's fashion brand and over 110 third-party clothing brands.

In July 2019, Lipsy acquired Fabled by Marie Claire, which significantly increased the Group's offer of Branded Beauty products. The table below sets out Lipsy's total sales[13] performance by channel and operating profit.

£m	July 2020	July 2019	Var %
Sales through NEXT websites: Online clothing	27.0	56.5	- 52%
Sales through NEXT websites: Online beauty	8.1	6.7	+20%
Sales through NEXT stores	1.2	4.4	- 73%
Sales reported through NEXT (full price and markdown sales)	**36.3**	**67.6**	**- 46%**
Other sales (wholesale, franchise, Fabled, third-party websites)	2.5	5.9	- 57%
Total sales	**38.8**	**73.5**	**- 47%**
Net operating profit including Lipsy acquisition costs	**0.1**	**5.8**	**- 98%**
Net operating profit/(loss) excluding Lipsy acquisition costs	**(0.3)**	**7.4**	**- 104%**

In the second half of the year, we expect some improvement in Lipsy's performance, with significant contribution from the expansion of our Beauty business and the introduction of a new casual Lipsy range. We anticipate a full year profit of around £3m.

NON-TRADING ACTIVITIES

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

£m	July 2020	July 2019
Central costs and employee share schemes	(11.5)	(11.0)
Property management	4.0	0.2
Foreign exchange	0.4	(0.9)
Associates and joint venture	(0.3)	0.1
Total	**(7.4)**	**(11.6)**

Property management generated net profit of £4m in the first half. This is made up of £37m of property profit from the sale and leaseback of our warehouse complex, offset by a £31m increase in onerous lease provisions relating to our Retail stores and £2m of other property provisions. The increase in onerous lease provisions has been driven by the significant fall in Retail sales during the COVID pandemic. Based upon projected sales, we anticipate that 20 stores will not generate positive cash flow over the term of their leases.

[13] Sales achieved through NEXT's stores and websites are reported by NEXT Retail and Online respectively. Online, UK sales are reported within LABEL and non-UK sales are reported within Overseas.

CASH FLOW

During the first half we generated £347m of surplus cash, reducing our net debt to £765m, despite the fact that we made only £9m of profit before tax. Cash inflows were significantly enhanced by:

- The net collection of £241m customer receivables, where collections exceeded lending
- The sale and leaseback of our Head Office and a warehouse complex for £147m

Based on our central scenario, we expect net debt for the full year, on a 53 week basis, to reduce by a further £115m to £650m. The first half cash flow and full year forecast is set out below.

£m	July 2020	July 2019	Jan 2021(e)	Jan 2020
Profit before tax	**9**	**320**	**300**	**729**
Depreciation	64	61	124	125
Proceeds from sale and leaseback (net of profit gain)	110	-	110	-
Customer receivables	241	21	225	(27)
Working capital and other	60	(49)	26	(19)
Pension contributions (defined benefit plan)	(1)	-	(22)	(6)
Tax paid	(77)	(70)	(119)	(138)
ESOT	7	(35)	(28)	(27)
Capital expenditure	(47)	(65)	(135)	(139)
Cash before shareholder distributions	**366**	**183**	**481**	**498**
Ordinary dividends	-	-	-	(214)
Share buybacks	(19)	(280)	(19)	(300)
Net cash inflow/(outflow)	**347**	**(97)**	**462**	**(16)**

Further details of significant cash flow movements and our financing arrangements are set out in the following pages.

PROCEEDS ON SALE AND LEASEBACK TRANSACTIONS

In the first half, we sold a warehouse complex and our Head Office as part of two sale and leaseback transactions. Proceeds of £147m were received as consideration and we generated £37m of profit.

In respect of the warehouse sale and leaseback, there is a further £10m consideration which is contingent on completion and approval of some existing development works. This has been included within the forecast for the full year as we expect the work to be completed and consideration received in the second half of the year.

WORKING CAPITAL, PENSION, TAX and ESOT

Working Capital

Working capital in the period to July 2020 resulted in an inflow of £60m, a variance of £109m compared to last year (outflow of £49m). This variance is primarily driven by movements in stock of £94m and the deferral of a VAT payment (£20m). The VAT of £20m was paid in August.

Pension Scheme

On the IFRS accounting basis, our defined benefit schemes have moved from £133m surplus at January 2020 to £88m surplus at July 2020. Further detail on the accounting position is provided in Note 10 of the Financial Statements.

A full actuarial valuation of our defined benefit pension scheme was undertaken as at 30 September 2019 and showed a small deficit of £19m. The funding position on the same valuation basis was a deficit of £67m when rolled forward to 30 June 2020. This triggered an increase in Company contributions under the terms of an agreement with the Pension Scheme Trustee and an additional £12m was paid into the pension scheme in August 2020. In total, we are forecasting that £22m of contributions will be paid into the pension scheme this year.

Tax Paid

This year, HMRC changed the timing of quarterly Corporation Tax payments so that UK businesses pay tax in the same year that the taxable profit is earned. Previously, half of the tax payment (two quarters) was deferred until the following year. This change has resulted in a one-off catch up with six tax quarters being paid this year, compared with four payments last year. In the first half, tax paid was £7m higher than last year. For the full year our forecast tax is £119m, £19m lower than last year. This reduction is the net effect of accelerated tax payments offset by lower taxable profits.

£m	**July 2020**	**July 2019**	**Jan 2021[e]**	**Jan 2020**
Tax paid relating to prior years	60	68	60	68
Tax paid on in year profit	17	2	59	70
Total tax paid in period	**77**	**70**	**119**	**138**

Employee Share Option Trust (ESOT)

In the first half we suspended purchases into our ESOT and received £7m from employee share option exercises. In the second half of the year we anticipate that we will restart share purchases for the ESOT and forecast a full year net cash outflow of £28m.

CAPITAL EXPENDITURE

We have continued to invest in the business and forecast total capital expenditure this year of £135m, compared with £139m last year. Our forecast for this year is shown below, by category, with the equivalent figures shown for last year.

£m	Jan 2021 (e)	Jan 2020
Warehousing	78	87
Systems	13	9
Retail space expansion	29	24
Retail cosmetic/maintenance capex	10	14
Head Office infrastructure	5	5
Total capital expenditure	**135**	**139**

Warehousing

Warehousing will be our biggest expenditure this year at £78m; part of a long-term investment programme to increase capacity. This year's forecast spend is £9m lower than last year because last year included some particularly large projects, including the extension of our Home palletised warehouse and the delivery of a new automated returns storage and retrieval system.

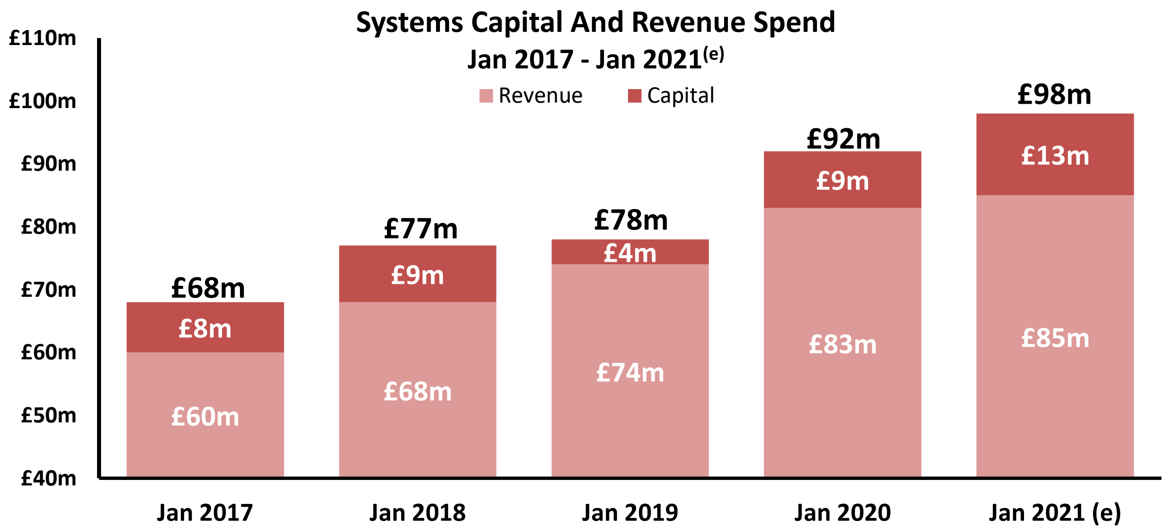
Systems Capital and Revenue Spend

We plan to invest £13m of capital in systems this year. This comprises £6m for hardware and infrastructure and £7m for the modernisation and development of three core Online systems: our website platform, warehouse systems and product systems.

Until recently, almost all our systems' costs were expensed as revenue costs. We anticipate that this will change as the nature of our systems development changes, and we expect systems capex to rise to £21m next year. There are two reasons for the change:

- The requirement for more long-term software infrastructure projects to update and replace existing legacy systems
- Total Platform third-party websites that will deliver benefits over the life of the Total Platform contracts

Over recent years we have also increased *revenue* systems expenditure. The following chart shows our historical capital and revenue spend for the last four years and our forecast for this year. In the current year we expect to spend a total of £98m, up +44% on 4 years ago.

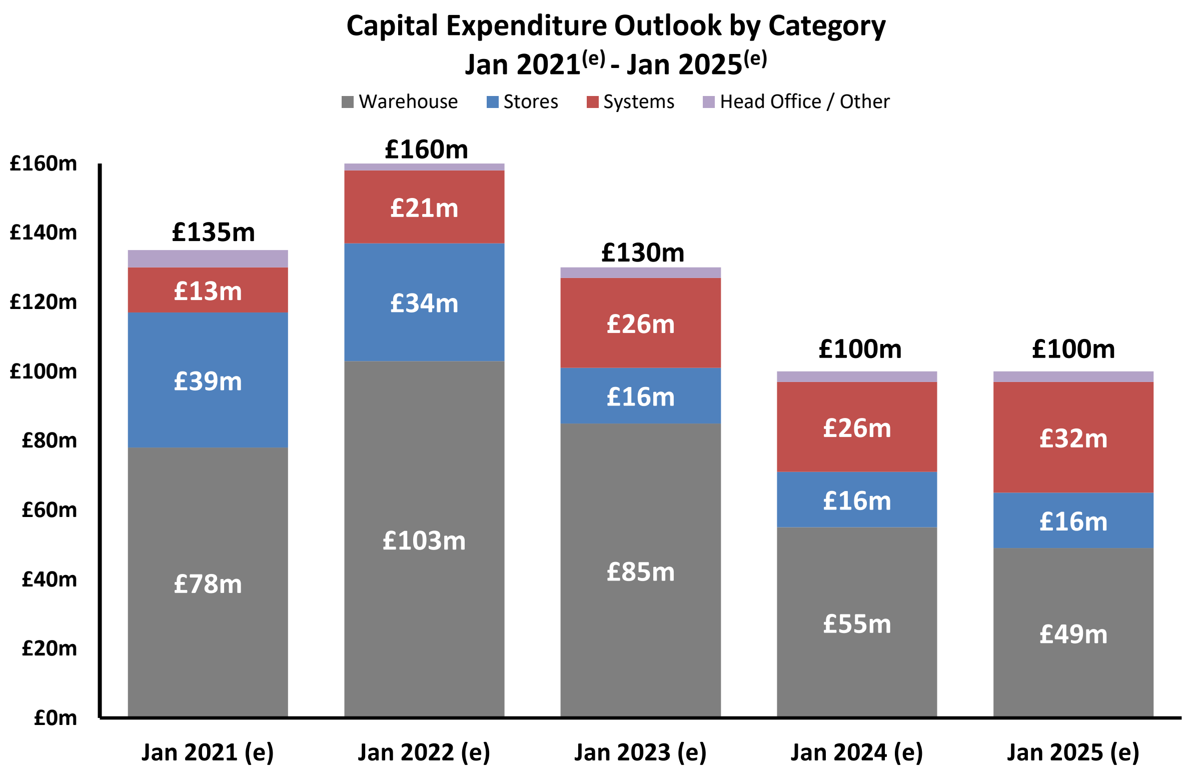


Retail Stores

Capital spent on Retail space expansion, at £29m, is £5m higher than last year. This is the result of delivering four large store re-sites, due to open in Spring 2021. Cosmetic and maintenance spend is expected to be £4m lower than last year due to the suspension of non-essential work during lockdown.

FIVE YEAR OUTLOOK FOR CAPITAL EXPENDITURE

Over the next five years we expect to spend £625m on capital expenditure, an average of £125m per annum. The warehouse expenditure totalling £370m covers an extensive expansion programme to increase Online capacity. We believe that this expenditure will increase our Online warehousing capacity by 80% from where it was during the year ended January 2020.



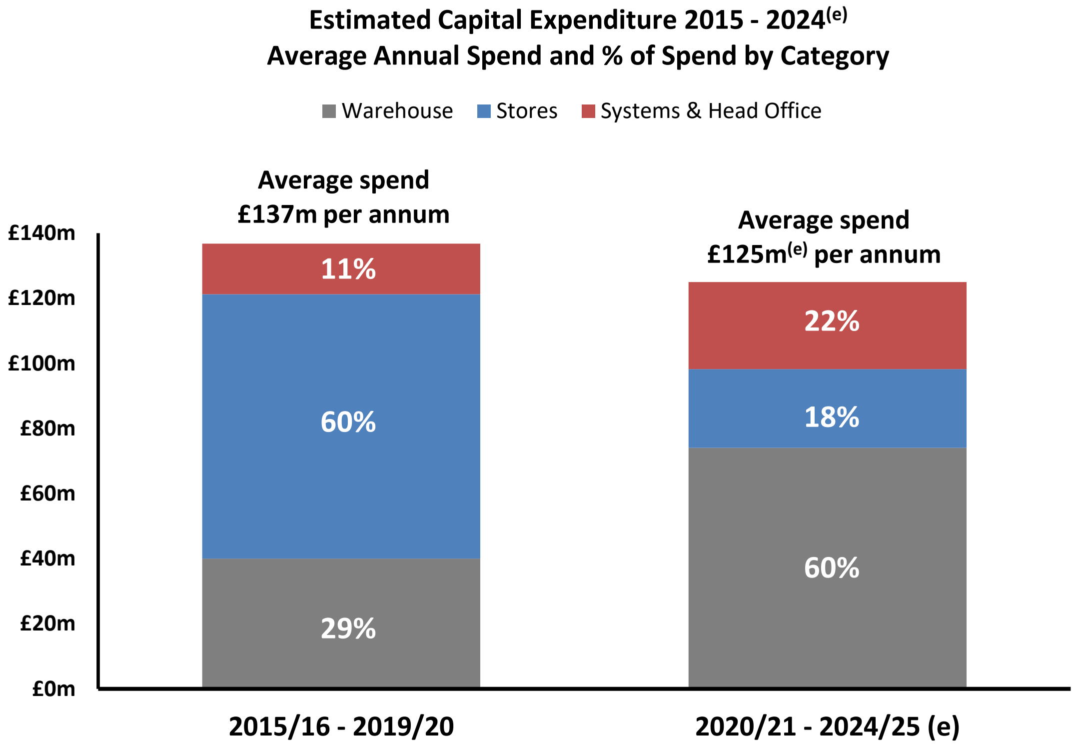
New Online Boxed Warehouse

Around £160m of the £370m forecast warehouse capital expenditure relates to the first phase of a new online boxed warehouse ("Elmsall 3"). A planning application for the building has been submitted and we expect this to be approved by the end of September. We plan to commence construction in 2021 and be operational in 2023. This first phase will provide a +75% increase in current boxed unit throughput. Elmsall 3 is planned to be highly automated and our aim is that the labour cost of Online boxed picking will be 45% lower in Elmsall 3 than in the year to January 2020.

The Changing Shape of Capital Expenditure

The bar chart below shows the average capital expenditure over the last five years compared to our expectations for the next five years, along with the percentage consumed by warehousing, stores and systems, respectively.

Overall, the net capital expenditure consumption of the Group is forecast to remain broadly unchanged. However, warehouse and systems capital requirements are set to rise dramatically with store capex falling to levels commensurate with maintaining, rather than expanding, our store estate.



Please note that the capital expenditure figures given do not account for the capital contributions we have received from retail landlords. Accounting for capital contributions, the average net capital expenditure would be £107m over the last five years. Over the next five years we expect the equivalent net capex to be around £115m.

ORDINARY DIVIDENDS AND SHARE BUYBACKS

In our April Trading Statement, we announced that we would suspend all capital returns to shareholders for the duration of this financial year. This includes both ordinary dividends and share buybacks. Prior to that announcement, in early February, we had bought back 279,639 shares for a total value of £19m.

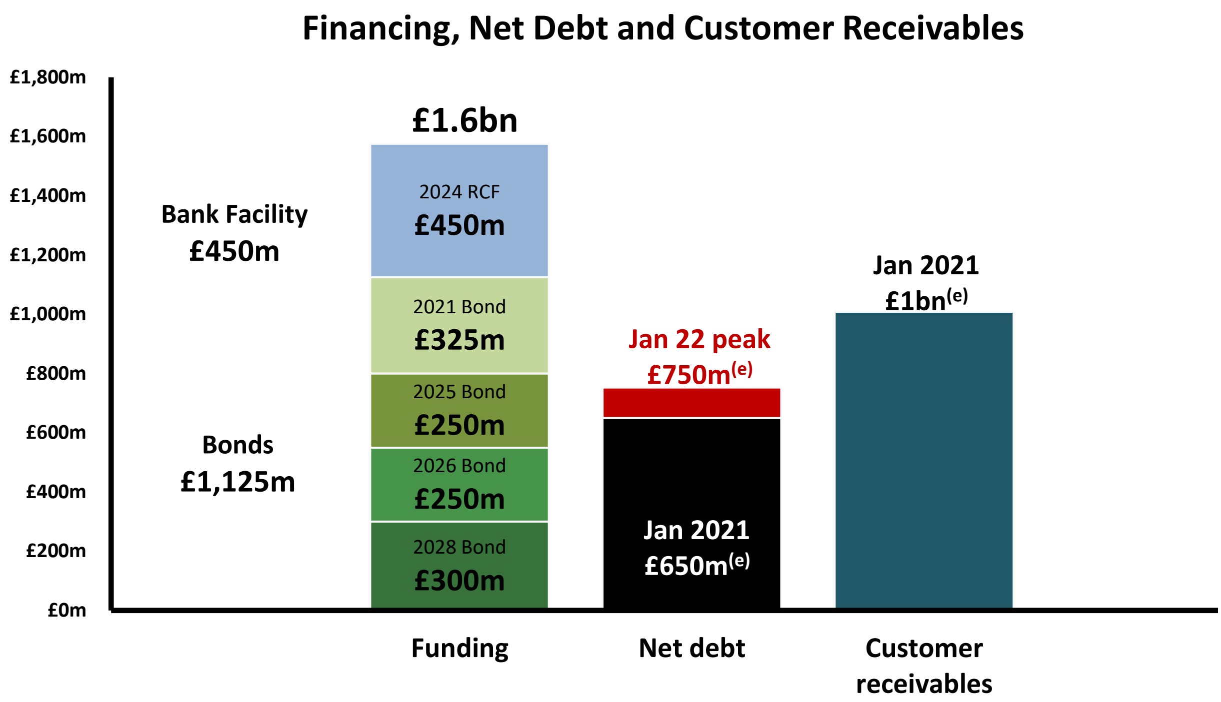
We recognise the importance of providing our shareholders with consistent and reliable dividend returns. However, with so much uncertainty around the course of the pandemic and its economic effects, we believe it is sensible and appropriate to continue to protect and enhance the Group's balance sheet. We remain committed to paying dividends to our shareholders once the crisis has passed and do not anticipate any long term change to our dividend policy.

NET DEBT, BOND AND BANK FACILITIES

Based on our central scenario for sales and cash this year, we expect year end net debt to be around £650m, a reduction of £462m since the start of the year. This would leave us significantly within our existing bond and bank facilities of £1,575m, with headroom of £925m at the end of the year.

Our bond and bank facilities are set out below, by value and maturity date. Our £325m bond matures in October 2021. Based on our current forecast, we would have the capacity to settle this bond without issuing a new bond and, at present, we do not intend to issue a new bond to replace it.

The graph below shows our current funding, our forecast for year end net debt and our anticipated peak financing requirements for the year ending January 2022. We expect that our net financial debt will be significantly lower than our £1bn of customer receivables.



The Group manages the financing of its debt and liquidity to ensure it maintains its longstanding investment grade credit rating. Despite the impact of the pandemic, funding headroom remains significantly above peak debt and the liquidity outlook for the Group remains strong, supported by its long term bonds, bank facilities and strong free operating cash flow.

PART 3 - FULL YEAR SALES, PROFIT AND CASH SCENARIOS

FULL PRICE SALES SCENARIOS

In the last thirteen weeks (since our stores reopened) Brand full price sales have been much better than we anticipated, down -2% on last year. Unfortunately, we believe that recent sales are very unlikely to be indicative of our sales performance for the rest of the year. We believe that sales in August and September have been boosted by:

- Far fewer people taking overseas holidays in August
- Cool weather at the end of August and over the bank holiday boosting sales of Autumn weight clothing. This contrasted with a bank holiday heat wave the previous year.

Our new **central scenario** assumes that sales will be down -12% for the rest of the year. This may sound pessimistic, but we believe that it is realistic for the following reasons:

- Furlough comes to an end in October, with all the economic discomfort that is likely to bring
- The onset of colder weather might worsen the effects of the pandemic and the measures required to contain it
- The recently implemented social distancing rule (the 'rule of six'), if still in force in December, is likely to depress demand for gifts and clothing associated with traditional Christmas family get togethers

In our **downside scenario** we assume that full price sales will be down -34% for the rest of the year. This scenario reflects a level of sales decline that seems likely if we experience more widespread lockdown measures and store closures.

The **upside scenario** assumes full price sales are down -4% for the rest of the year and almost certainly represents the top end of what is achievable with the stock that we have bought for the second half.

Full price sales versus last year	**Upside**	**Central**	**Downside**
First half	- 33%	- 33%	- 33%
Second half to date	+4%	+4%	+4%
Rest of year scenario	**- 4%**	**- 12%**	**- 34%**
Second half	- 2%	- 8%	- 25%
Full year	- 17%	- 20%	- 29%

PROFIT BEFORE TAX, CASH AND NET DEBT

Based on these three scenarios for full price sales, the expected profit, surplus cash and net debt at the end of the year are set out below.

Profit before tax, cash and net debt	**Upside**	**Central**[14]	**Downside**
Profit before tax	**£370m**	**£300m**	**£110m**
Reduction in year end net debt	£477m	£462m	£287m
Year end net debt[15]	£635m	£650m	£825m

THIRD QUARTER TRADING UPDATE

Our third quarter Trading Statement will cover the thirteen weeks to 24 October 2020 and is scheduled for Wednesday 28 October 2020.

Lord Wolfson of Aspley Guise
Chief Executive
17 September 2020

[14] For a full reconciliation to our July Trading Statement see Appendix 2 on page 46.
[15] Year end net debt at 53rd week

APPENDIX 1

STATUTORY SALES AND PROFIT

STATUTORY BASIS £m and EPS	July 2020	July 2019	
Sales	1,332.7	2,014.5	- 33.8%
Profit/(loss) before tax	(16.5)	327.4	- 105.0%
Profit/(loss) after tax	(11.5)	266.9	- 104.3%
Earnings Per Share (Basic)	(9.0)p	204.4p	
Adjusted net debt (including leases)	(2,077.3)	(2,524.1)	

Overview

Last year, following the introduction of the new lease accounting standard IFRS 16, we decided to maintain the reporting of our profit on a pre-IFRS 16 basis. This was because the pre-IFRS 16 profit was consistent with the financial information used to inform business decisions and investment appraisals. In addition, in common with many retailers, we used "Total sales" as a measure to assess the performance of the business and not statutory revenue. Having been prepared on a basis that was consistent with prior years, and our Trading Statements, it was our view that this provided both a useful and necessary basis for understanding the Group's results. We have taken the same approach this year.

In the first half of this year, on a statutory basis, sales were down -34% and, including the effect of IFRS 16, we made a loss before tax of -£16.5m. This is £25.5m less profit than pre-IFRS 16. The reason for this difference is primarily the accounting treatment of the sale and leaseback transactions. Under IFRS 16, the gain on the sale and leaseback is limited to £7m compared to £37m on a pre-IFRS 16 basis (see details on accounting policy for Sale and Leaseback in Note 1 of the Interim Financial Statements). This difference will effectively be amortised over the duration of the lease, such that over its full term the net impact on the P&L is the same under IFRS 16 and pre-IFRS 16. As shown below, the significant, non-recurring items in our statutory accounts have the net effect of reducing profit by -£61m.

£m	First half profit impact (IFRS 16)
Property profit from the sale and leaseback of properties	+7
Business rates reduction	+32
Store related impairment	- 41
Stock and fabric provisions	- 39
Bad debt provisions	- 20
Total profit impact	**- 61**

Further details and explanation of statutory sales and the impact of IFRS 16 are provided in the following pages.

Sales

Sales presented in pages 2 to 41 are based on "Total sales" excluding VAT. "Total sales" represent VAT exclusive sales, including the full value of commission based sales and interest income. For statutory reporting purposes two adjustments are made to derive statutory revenue:

- Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. This adjustment reduces the value of sales recognised in statutory reporting by £51.0m for the period to July 2020 (2019: £65.0m)
- Customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances are included in statutory revenue (these amounts being reclassified from the cost of sales). This adjustment increases the value of sales recognised for statutory reporting purposes by £26.9m for the period to July 2020 (2019: £20.7m)

As a result, Total Sales for the period to July 2020 of £1,356.8m (2019: £2,058.8m) are recognised for statutory purposes as revenue of £1,332.7m (2019: £2,014.5m). A corresponding amount has been recognised in cost of sales.

This change has no impact on profit before taxation, profit after taxation, Earnings Per Share or cash flow.

IFRS 16 Leases and the Impact on the Income Statement

Last year, on adoption of IFRS 16 for the first time, we recognised a significant portion of the lease costs directly in reserves. Where the lease portfolio is stable, this will result in lower lease costs being recognised in the Income Statement going forward. This was evident in the July 2019 Income Statement, which showed a benefit to profit before tax of £7.8m when it was restated for IFRS 16.

However, for the period to July 2020 the net impact of IFRS 16 is to ***reduce*** the profit before tax by £25.5m. This movement is primarily the result of:

1. **Underlying IFRS 16 transactions +£7.9m:** This represents the IFRS 16 adjustment on underlying/normal trade. The £7.9m is primarily the result of (1) IAS 17 rent costs of +£118m, (2) Removal of IAS 17 capital contributions -£12m and (3) IFRS 16 depreciation -£69m and finance costs -£29m.

2. **Lease provisions and impairment -£3.4m**: The property and onerous lease provision of £37m recognised under the pre-IFRS 16 accounting has been reversed. The retail stores have then been reviewed for impairment and this has resulted in an additional impairment charge on the right-of-use asset of £41m.

3. **Sale and leaseback gain -£30m:** In the pre-IFRS 16 accounting the gain on the sale and leaseback is calculated as proceeds less the net book value of the assets being sold. However, under IFRS 16 the approach is different. IFRS 16 effectively limits any gain to the element of the asset which it no longer has access to use. The gain is effectively limited to the 'portion' of the asset not reacquired under the terms of the leaseback. This has resulted in the recognition of a smaller gain of £7m.

The net impact of IFRS 16 on both 2020 and 2019 is summarised in the table below. IFRS 16 changes profit before tax, profit after tax and Earnings Per Share.

£m	July 2020 excluding IFRS 16	IFRS 16 impact	July 2020 including IFRS 16
Profit before taxation	**9.0**	**(25.5)**	**(16.5)**
Taxation	6.2	(1.2)	5.0
Profit after taxation	**15.2**	**(26.7)**	**(11.5)**
Earnings Per Share (Basic)	**11.8p**	**(20.8)p**	**(9.0)p**

£m	July 2019 excluding IFRS 16	IFRS 16 impact	July 2019 including IFRS 16
Profit before taxation	**319.6**	**7.8**	**327.4**
Taxation	(59.1)	(1.4)	(60.5)
Profit after taxation	**260.5**	**6.4**	**266.9**
Earnings Per Share (Basic)	**199.5p**	**4.9p**	**204.4p**

It is important to stress that while the timing and nature of costs under IFRS 16 differ to those reported under IAS 17, over the course of the lease term the overall costs remain the same. This also applies to the gain on the sale and leaseback which, over the life of the lease, will result in the same net impact to the income statement.

Adjusted Net Debt

Net debt at July 2020, excluding leases, was £765m. From a statutory reporting perspective, IFRS 16 results in the recognition of lease debt on the Balance Sheet of £1,313m (2019: £1,331m).

£m	July 2020	July 2019	Reduction in net debt
Cash and cash equivalents	**360.3**	**42.1**	
Unsecured bank loans	-	(160.0)	
Corporate bonds	(1,168.6)	(1,114.6)	
Fair value hedges of bonds	43.6	39.2	
Net debt excluding leases	**(764.7)**	**(1,193.3)**	**428.6**
Lease debt under IFRS 16	(1,312.6)	(1,330.8)	
Net debt including leases	**(2,077.3)**	**(2,524.1)**	**446.8**

The year-on-year reduction in lease debt reflects the payments made in the period and the trend towards shorter lease terms on retail stores, offset by the sale and leaseback transactions entered into during the period.

Cash Flow

In the Chief Executive's Review, the cash flow has been presented in the format we use to inform our business decisions and assess overall liquidity. Accordingly, it shows the movement in the Group's net debt as a cash inflow of £347m for the 26 week period to July 2020.

In contrast, the "Net increase in cash and cash equivalents'' in the Interim Financial Statements shows a cash inflow £307m which represents the overall movement in the cash balance, not the movement in the Group net debt. The difference between these two values relates to the repayment of £40m under our revolving credit facility which reduced the cash balance, but has no impact on net debt (as the reduction in cash is offset by reduction in external debt).

Lease Commitment Profile

On an IFRS 16 basis 50% of the lease liability (by value) will expire within the next 10 years. This differs from the lease profile on page 27 which states that 50% of the leases will expire or break within 4.7 years and that within the next 10 years 82% of the rental liability would have expired.

This difference is primarily due to the following factors:

- The IFRS 16 lease profile includes all lease contracts within the scope of IFRS 16 - stores, warehouses, Head Office and plant and machinery. In contrast the lease commitment profile on page 27 includes store leases only
- The IFRS 16 liability includes lease terms beyond the break clause based on our expectation of how long we will remain in the lease. In contrast the lease commitment profile on page 27 only includes the commitment to expiry or break point
- The IFRS 16 lease liability is measured as the present value of future lease payments. In contrast the lease commitment on page 27 is not discounted.

APPENDIX 2

Reconciliation of New Central Scenario Cash and Profit with July's Trading Statement

When compared to the July Trading Statement, our new central scenario for full year profit before tax has increased by +£105m. However, the forecast net cash generated has not materially changed. The points and table below explain and reconcile the apparent contradiction.

Net cash from additional profit adds £72m after tax, but we anticipate this will be offset by:

- The purchase of shares for our Employee Share Option Trust (ESOT)
- Capital expenditure increases from (1) the spend on Online systems projects and (2) restarting warehouse projects earlier than expected
- A £20m VAT payment, that was owed but we could have chosen to defer under current HMRC guidelines.

Cash reconciliation of new central scenario versus July Trading Statement	**£m (e)**
Additional profit before tax (£300m - £195m)	+105
Additional Corporation Tax at 19%	- 21
Increase in customer receivables	- 12
Forecast cash from additional profit	**+72**
Increase in ESOT share purchases	- 35
Increase in capital expenditure	- 23
VAT (-£20m) and other working capital (+£4m)	- 16
Total change in cash	**- 2**

UNAUDITED CONSOLIDATED INCOME STATEMENT

	26 weeks to 25 July 2020 £m	26 weeks to 27 July 2019 £m
Continuing operations		
Revenue	**1,332.7**	2,014.5
Cost of sales	**(961.2)**	(1,249.6)
Gross profit	**371.5**	764.9
Distribution costs	**(227.0)**	(249.6)
Administrative expenses	**(110.5)**	(131.4)
Other gains/(losses)	**0.4**	(3.2)
Trading profit	**34.4**	380.7
Share of results of associates and joint venture	**(0.3)**	0.1
Operating profit	**34.1**	380.8
Finance income	**0.2**	0.1
Finance costs (Note 6)	**(50.8)**	(53.5)
(Loss)/profit before taxation	**(16.5)**	327.4
Taxation (Note 7)	**5.0**	(60.5)
(Loss)/profit for the period attributable to equity holders of the Parent Company	**(11.5)**	266.9

	26 weeks to 25 July 2020	26 weeks to 27 July 2019
Earnings Per Share (Note 8)		
Basic	**(9.0)p**	204.4p
Diluted	**(9.0)p**	203.3p

Numbers presented in these unaudited consolidated financial statements have been prepared in accordance with IFRS. A reconciliation between the statutory results and those disclosed in the Chief Executive's Review is provided in Appendix 1 of the Chief Executive's Review.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	26 weeks to 25 July 2020 £m	26 weeks to 27 July 2019 £m
(Loss)/profit for the period	**(11.5)**	266.9
Other comprehensive income and expenses:		
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on defined benefit pension scheme	**(48.8)**	16.6
Tax relating to items which will not be reclassified	**9.3**	(2.8)
Subtotal items that will not be reclassified	**(39.5)**	13.8
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(0.2)**	(1.0)
Foreign currency cash flow hedges:		
- fair value movements	**21.8**	46.8
- reclassified to the Income Statement	**-**	(7.2)
- recognised in inventories	**-**	(8.8)
Cost of hedging		
- fair value movements	**0.9**	0.7
Tax relating to items which may be reclassified	**(3.6)**	(5.3)
Subtotal items that may be reclassified	**18.9**	25.2
Other comprehensive income for the period	**(20.6)**	39.0
Total comprehensive income for the period	**(32.1)**	305.9

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	25 July 2020 £m	27 July 2019 restated £m	25 Jan 2020 £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		**459.8**	569.7	578.5
Intangible assets		**44.2**	44.5	44.2
Right-of-use asset	17	**857.0**	916.6	852.7
Associates, joint venture and other investment		**4.9**	5.1	5.0
Defined benefit pension asset	10	**88.1**	142.0	133.4
Other financial assets	11	**62.1**	60.5	48.4
Deferred tax assets		**62.8**	40.5	55.7
		1,578.9	1,778.9	1,717.9
Current assets				
Inventories		**485.3**	551.1	527.6
Customer and other receivables	12	**1,066.4**	1,254.0	1,315.3
Right of return asset		**30.0**	32.6	24.2
Other financial assets	11	**5.6**	35.8	1.7
Cash and short term deposits	16	**395.8**	156.9	86.6
		1,983.1	2,030.4	1,955.4
Total assets		**3,562.0**	3,809.3	3,673.3
Current liabilities				
Bank loans and overdrafts		**(35.5)**	(274.8)	(73.7)
Trade payables and other liabilities	13	**(581.9)**	(589.4)	(592.0)
Lease liabilities	17	**(168.5)**	(154.5)	(172.3)
Dividends payable	9	**-**	(140.3)	-
Other financial liabilities	11	**(15.4)**	(4.8)	(32.6)
Current tax liabilities		**(5.7)**	(77.9)	(79.2)
		(807.0)	(1,241.7)	(949.8)
Non-current liabilities				
Corporate bonds	14	**(1,168.6)**	(1,114.6)	(1,163.7)
Provisions		**(18.6)**	(15.2)	(17.3)
Other financial liabilities	11	**(10.5)**	(13.1)	(7.8)
Lease liabilities	17	**(1,144.1)**	(1,176.3)	(1,078.7)
Other liabilities		**(18.5)**	(17.7)	(14.5)
Deferred tax liabilities		**-**	(4.4)	-
		(2,360.3)	(2,341.3)	(2,282.0)
Total liabilities		**(3,167.3)**	(3,583.0)	(3,231.8)
NET ASSETS		**394.7**	226.3	441.5
TOTAL EQUITY		**394.7**	226.3	441.5

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 25 January 2020	**13.3**	**0.9**	**16.6**	**(284.9)**	**(24.7)**	**0.5**	**-**	**(1,443.8)**	**2,163.6**	**441.5**
Loss for the period	-	-	-	-	-	-	-	-	(11.5)	(11.5)
Other comprehensive income/(expense) for the period	-	-	-	-	18.4	0.7	(0.2)	-	(39.5)	(20.6)
Total comprehensive income/(expense) for the period	-	-	-	-	18.4	0.7	(0.2)	-	(51.0)	(32.1)
Reclassified to cost of inventory	-	-	-	-	(1.5)	-	-	-	-	(1.5)
Share buybacks and commitments	-	-	-	-	-	-	-	-	(19.3)	(19.3)
ESOT share purchases	-	-	-	(87.0)	-	-	-	-	-	(87.0)
Shares sold/issued by ESOT	-	-	-	123.4	-	-	-	-	(29.1)	94.3
Share option charge	-	-	-	-	-	-	-	-	7.8	7.8
Tax recognised directly in equity	-	-	-	-	-	-	-	-	(9.0)	(9.0)
Equity dividends (Note 9)	-	-	-	-	-	-	-	-	-	-
At 25 July 2020	**13.3**	**0.9**	**16.6**	**(248.5)**	**(7.8)**	**1.2**	**(0.2)**	**(1,443.8)**	**2,063.0**	**394.7**
At 26 January 2019	13.9	0.9	16.0	(271.6)	0.4	0.4	(2.0)	(1,443.8)	2,052.0	366.2
Profit for the period	-	-	-	-	-	-	-	-	266.9	266.9
Other comprehensive income/(expense) for the period	-	-	-	-	25.6	0.6	(1.0)	-	13.8	39.0
Total comprehensive income/(expense) for the period	-	-	-	-	25.6	0.6	(1.0)	-	280.7	305.9
Share buybacks and commitments	(0.5)	-	0.5	-	-	-	-	-	(280.2)	(280.2)
ESOT share purchases	-	-	-	(46.2)	-	-	-	-	-	(46.2)
Shares issued by ESOT	-	-	-	15.0	-	-	-	-	(3.3)	11.7
Share option charge	-	-	-	-	-	-	-	-	6.4	6.4
Tax recognised directly in equity	-	-	-	-	-	-	-	-	2.8	2.8
Equity dividends (Note 9)	-	-	-	-	-	-	-	-	(140.3)	(140.3)
At 27 July 2019	13.4	0.9	16.5	(302.8)	26.0	1.0	(3.0)	(1,443.8)	1,918.1	226.3

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 25 July 2020 £m	26 weeks to 27 July 2019 £m
Cash generated from operations	**471.9**	474.8
Corporation taxes paid	**(76.9)**	(70.2)
Net cash from operating activities	**395.0**	404.6
Cash flows from investing activities		
Additions to property, plant and equipment	**(47.2)**	(65.1)
Movement in capital accruals	**(4.3)**	2.2
Payments to acquire property, plant and equipment	**(51.5)**	(62.9)
Proceeds from sale of property, plant and equipment	**145.1**	0.2
Net cash from investing activities	**93.6**	(62.7)
Cash flows from financing activities		
Repurchase of own shares	**(19.3)**	(280.2)
Purchase of shares by ESOT	**(87.0)**	(46.2)
Disposal of shares by ESOT	**95.7**	11.7
Issue of corporate bonds	**-**	198.6
Repayment of unsecured bank loans	**(40.0)**	(95.0)
Lease repayment	**(86.6)**	(75.1)
Interest paid	**(43.9)**	(48.1)
Interest received	**0.1**	0.2
Net cash from financing activities	**(181.0)**	(334.1)
Net increase in cash and cash equivalents	**307.6**	7.8
Opening cash and cash equivalents	**52.9**	34.0
Effect of exchange rate fluctuations on cash held	**(0.2)**	0.3
Closing cash and cash equivalents (Note 16)	**360.3**	42.1

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The Group's interim results for the 26 weeks to 25 July 2020 (prior year 26 weeks to 27 July 2019) were approved by the Board of Directors on 17 September 2020 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 25 January 2020 which have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

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.

The comparative financial information shown for the period to 27 July 2019 has been restated to align to the final IFRS 16 balance sheet as presented in the January 2020 Annual Report. The restatement related to the January 2018 opening balance sheet under IFRS 16 with the adjustment reducing creditors by £9.4m and reducing the deferred tax asset by £1.7m (net impact on net assets of £7.7m). It had no impact on the Income Statement or other primary statements.

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 25 January 2020 except for new policies to cover accounting for sale and leaseback transactions and grants as set out below.

Grants
Grants are recognised only when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Grants that are receivable as compensation for expenses already incurred are recognised in profit or loss in the period in which they become receivable.

Sale and leaseback
A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the counterparty. A sale is recognised when control of the underlying asset passes to the counterparty. The asset sold is derecognised and a lease liability and right-of-use asset recognised in relation to the lease. Any gain or loss arising on the transaction is recognised in the Income Statement and relates to the rights transferred to the counterparty.

1. Basis of preparation (continued)

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

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

Expected credit losses (ECL) on Online customer and other receivables
The provision for the allowance for ECL (Note 12) is calculated using a combination of internally and externally sourced information, including future default levels (derived from historical defaults overlaid by indebtedness profiles and macro-economic assumptions), future predicted cash collection levels (derived from past trends), arrears stage and customer indebtedness and other credit data.

A key assumption within the ECL calculation is the forecast rate of UK unemployment. As a result of the uncertainty caused by the ongoing COVID pandemic, the forecast unemployment rate used is 3% higher than the position used as at January 2020.

The expected increase in the rate of unemployment provides a strong indicator of a deterioration in the ability of customers to afford their payments and, in turn, an increase in Probability of Default (PD) and the Exposure at Default (EAD). This is a key driver behind the increase in the bad debt provision in the period. A 1% movement in this assumption equates to a circa £6m movement in provision.

Management have also sensitised the impact of a change in customer affordability on the PD and EAD by using a 10% deterioration and 10% improvement of Experian's average Customer Indebtedness Index. This results in an £11.0m increase and £11.0m decrease, respectively, in the allowance for ECL. The choice of a 10% change for the determination of sensitivity represents a reasonable, but not extreme, variation in typical customer indebtedness.

A 2% movement upwards (or downwards) in the expected rate of cash collectable following default reduces (or increases) the allowance for ECL by £1.0m. The choice of a 2% change for the determination of sensitivity represents a reasonable, but not extreme variation in the collection rate.

In the five weeks following the interim period end date, £0.2bn of the £1.0bn NEXT customer and other trade receivables has been recovered.

Net realisable value of inventories
The selling prices of inventory are estimated to determine the net realisable value of inventory. Historical sales patterns and post period end trading performance are used to determine these. A 2% change in the volume of inventories going to clearance would impact the net realisable value by circa £4m. A 2% change in the level of markdown applied to the selling price would impact the value of inventories going to clearance by circa £6m.

Impairment of right-of-use assets and PPE
Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When an impairment review is performed, the recoverable amount is based on the higher of the value in use and fair value less costs to sell. The value in use method requires the Group to apply assumptions in performing its assessment of future

1. Basis of preparation (continued)

cash flows over the useful life of the asset. Key assumptions used are the long-term growth rate to be applied to this life and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

In light of the COVID pandemic and its impact on the business performance, the Group's cash flow projections for its Retail stores have been revised and now factor in the experience of trade since stores reopened following Government restrictions, the impact of social distancing measures, and the actions the Group is taking to protect the business. The cash flow projections include assumptions on store performance throughout the remaining lease term, in particular the expected growth in like-for-like sales which represent a source of significant estimation uncertainty. A future change to the assumption of sales growth would result in a reassessment of the value in use and could give rise to a significant change in the impairment recognised.

A change of 1% to the assumed annual change in like-for-like Retail sales would result in a change to the impairment charge in the period of £2m. A change of 1% on the discount rate applied to the across the portfolio of stores would result in an increase in the impairment charge of £1m.

Significant judgements

Significant judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Leases

Management exercises judgement in determining the lease term on its lease contracts. Within its lease contracts, particularly those in respect of its Retail business, break options are included to provide operational and financial security should store performance be different to expectations. At inception of a lease, management will typically assess the lease term as being the full lease term as such break options are not typically considered reasonably certain to be exercised.

The discount rate used to calculate the lease liability is based on the incremental borrowing rate. Incremental borrowing rates are determined monthly and depend on the lease term, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk free rate based on government bond rates; country specific risk and NEXT bond yields.

The impact of an increase of 0.5% on the discount rate applied to the July 2020 right-of-use asset, depreciation charge, lease liability and finance cost is presented below.

Right-of-use asset	£55m decrease
Depreciation	£10m decrease
Lease liability	£40m decrease
Finance cost	£6m increase

Going concern

In light of the current economic uncertainty caused by the COVID pandemic, the directors have reviewed the current financial performance and liquidity of the business, and assessed its resilience to a reduction in sales through a series of scenarios. Further details of the assessment are provided in the Chief Executive's Review.

The directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the interim 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 2020 Annual Report, described as follows, also remain relevant to the rest of the financial year: Business strategy development and implementation; Product design and selection; Key suppliers and supply chain management; Warehousing and distribution; Customer-facing systems; Management of long term liabilities and capital expenditure; Information security, data privacy, business continuity and cyber risk; Financial, treasury, liquidity and credit risks; and Regulatory compliance in relation to our consumer credit business. These are detailed on pages 60 to 64 of the 2020 Annual Report, a copy of which is available on the Company's website at www.nextplc.co.uk.

3. Segmental analysis

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Board. The performance of operating segments is assessed on profits before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 "Share-based payment", IFRS 16 "Leases" and unrealised gains or losses on derivatives which do not qualify for hedge accounting.

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

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

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

Segment sales and revenue

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

*NENA (Next Europe and North Africa) is a small acquisition made on 31 January 2020.

3. Segmental analysis (continued)

Segment sales and revenue

26 weeks to 27 July 2019	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	874.3	(1.5)	(0.5)	872.3	1.6	873.9
NEXT Online	1,004.9	(63.5)	21.2	962.6	-	962.6
NEXT Finance	134.0	-	-	134.0	-	134.0
NEXT International Retail	28.9	-	-	28.9	-	28.9
NEXT Sourcing	3.4	-	-	3.4	262.7	266.1
	2,045.5	(65.0)	20.7	2,001.2	264.3	2,265.5
Lipsy	5.9	-	-	5.9	32.1	38.0
Property Management	7.4	-	-	7.4	98.5	105.9
Total segment sales/revenue	2,058.8	(65.0)	20.7	2,014.5	394.9	2,409.4
Eliminations	-	-	-	-	(394.9)	(394.9)
Total	2,058.8	(65.0)	20.7	2,014.5	-	2,014.5

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

3. Segmental analysis (continued)

Segment profit

The view of segment profit used by the CODM does not include the impact of IFRS 16 because the IFRS 16 profit before tax is not used in internal reporting.

	26 weeks to 25 July 2020 £m	26 weeks to 27 July 2019 £m
NEXT Retail	**(175.2)**	56.0
NEXT Online	**128.2**	177.1
NEXT Finance	**58.9**	75.8
NEXT International Retail	**0.5**	3.1
NEXT Sourcing	**4.9**	16.9
	17.3	328.9
Lipsy	**0.1**	5.7
Property Management	**4.0**	0.2
Total segment profit	**21.4**	334.8
Central costs and other	**(3.7)**	(4.5)
Recharge of interest	**20.4**	17.8
Share option charge	**(7.8)**	(6.4)
Unrealised foreign exchange gains/(losses)	**0.4**	(0.9)
Trading profit	**30.7**	340.8
Share of results of associates and joint venture	**(0.3)**	0.1
Finance income	**0.2**	0.1
Finance costs	**(21.6)**	(21.4)
Profit before tax excluding IFRS 16	**9.0**	319.6
IFRS 16	**(25.5)**	7.8
(Loss)/profit before tax including IFRS 16	**(16.5)**	**327.4**

4. Revenue

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

26 weeks to 25 July 2020

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

26 weeks to 27 July 2019

	Sale of Goods £m	Credit account interest £m	Royalties £m	Rental Income £m	Total £m
NEXT Online	962.6	-	-	-	962.6
NEXT Finance	-	134.0	-	-	134.0
NEXT Retail	872.3	-	-	-	872.3
NEXT International Retail	26.1	-	2.8	-	28.9
NEXT Sourcing	3.4	-	-	-	3.4
Lipsy	4.8	-	1.1	-	5.9
Property Management	-	-	-	7.4	7.4
Total	1,869.2	134.0	3.9	7.4	2,014.5

5. Operating Profit

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

	26 weeks to 25 July 2020 £m	26 weeks to 27 July 2019 £m
Impairment charges on tangible assets	**5.6**	-
Impairment charges on right-of-use assets	**35.9**	-
Write down of inventories to net realisable value	**78.2**	56.9
Depreciation of property, plant and equipment	**57.7**	60.4
Depreciation of right-of-use asset	**69.2**	67.4
Job Retention Scheme receipts	**(79.4)**	-
Customer and other receivables:		
Impairment charge	**34.3**	20.8
Amounts recovered	**(1.0)**	(1.6)

During the period to July 2020 the Group received funds under the UK Government's Job Retention Scheme which has been paid to employees on furlough. This has been recognised as a grant in accordance with the accounting policy set out in Note 1.

6. Finance costs

	26 weeks to 25 July 2020 £m	26 weeks to 27 July 2019 £m
Interest on bonds and other borrowings	**21.4**	20.9
Other fair value movements	**0.2**	0.5
Finance costs on lease liability	**29.2**	32.1
Finance costs	**50.8**	53.5

7. Taxation

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

8. Earnings Per Share

	26 weeks to 25 July 2020 Including IFRS 16	26 weeks to 27 July 2019 Including IFRS 16	**26 weeks to 25 July 2020 Excluding IFRS 16**	26 weeks to 27 July 2019 Excluding IFRS 16
Basic Earnings Per Share	**(9.0)p**	204.4p	**11.8p**	199.5p
Diluted Earnings Per Share	**(9.0)p**	203.3p	**11.8p**	198.4p

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 3.8 million non-dilutive share options which were excluded from the diluted EPS calculation (2019: 2.3 million).

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

	26 weeks to 25 July 2020 £m	26 weeks to 27 July 2019 £m
(Loss)/profit after tax attributable to equity holders of the Parent Company	**(11.5)**	266.9
Weighted average number of shares (millions):		
Weighted average shares in issue	**133.0**	136.2
Weighted average shares held by ESOT	**(4.2)**	(5.6)
Weighted average shares for basic EPS	**128.8**	130.6
Weighted average dilutive potential shares	**0.5**	0.7
Weighted average shares for diluted EPS	**129.3**	131.3

9. Dividends

No dividends were declared or paid in the period to July 2020. NEXT does not intend to pay an ordinary interim dividend in the year to January 2021. Dividends paid or declared during the period to July 2019 were as follows:

26 weeks to 27 July 2019	Paid	Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m	July 2019 Balance Sheet £m
Ordinary final dividend for year to Jan 2019	1 Aug 2019	110p	-	140.3	140.3
			-	140.3	140.3

10. 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 25 July 2020 £m	26 weeks to 27 July 2019 £m	52 weeks to 25 January 2020 £m
Surplus in schemes at the beginning of the period	**133.4**	125.0	125.0
Current service cost	**(4.8)**	(3.6)	(6.0)
Administration costs	**(1.1)**	(1.2)	(2.4)
Net interest	**1.2**	1.9	3.7
Employer contributions	**8.2**	3.5	7.3
Actuarial (losses)/gains	**(48.8)**	16.4	5.8
Surplus in schemes at the end of the period	**88.1**	142.0	133.4

The surplus in the schemes has moved from £133.4m at January 2020 to £88.1m at July 2020, primarily due to actuarial losses of £48.8m. The majority of this movement results from updating the membership data in line with the most recent triennial valuation for both actual member experience, and the split of the pension liabilities between the various tranches of benefit.

10. 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 25 July 2020	26 weeks to 27 July 2019	52 weeks to 25 January 2020
Discount rate	**1.60%**	2.20%	1.75%
Inflation – RPI	**2.70%**	3.10%	2.80%
Inflation – CPI	**1.80%**	2.10%	1.90%
Salary increases	**-**	-	-
Pension increases in payment			
- RPI with a maximum of 5%	**2.65%**	2.95%	2.75%
- RPI with a maximum of 2.5% and discretionary increases	**1.85%**	2.00%	1.90%

11. Other financial assets and liabilities

Other financial assets and other financial liabilities include the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks. All derivatives are categorised as Level 2 under the requirements of IFRS 13 "Fair value measurement'', as they are valued using techniques based significantly on observed market data (refer to the Fair Value Hierarchy table in Note 27 of the January 2020 Annual Report).

12. Customer and other receivables

	25 July 2020 £m	27 July 2019 £m	25 Jan 2020 £m
Gross customer receivables	**1,250.9**	1,415.0	1,455.5
Less: refund liabilities	**(61.1)**	(60.7)	(49.9)
Net customer receivables	**1,189.8**	1,354.3	1,405.6
Less: allowance for expected credit losses	**(197.0)**	(168.5)	(171.5)
	992.8	1,185.8	1,234.1
Other trade receivables	**14.2**	19.4	26.4
Less: allowance for doubtful debts	**(1.4)**	(0.1)	(0.5)
	1,005.6	1,205.1	1,260.0
Prepayments	**34.4**	36.6	38.8
Other debtors	**22.4**	10.4	13.3
Amounts due from associates and joint venture	**4.0**	1.9	3.2
	1,066.4	1,254.0	1,315.3

12. Customer and other receivables (continued)

No interest is charged on customer receivables if the statement balance is paid in full and to terms; otherwise balances bear interest at a variable annual percentage rate of 23.9% at the half year end date (2019: 23.9%) except for £8.1m (July 2019: £5.2m, January 2020: £6.0m) of next3step balance that bears interest at 29.9% (2019: 29.9%).

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

The fair value of customer receivables and other trade receivables is approximately £960m (July 2019: £1,150m, January 2020: £1,200m). This has been calculated based on future cash flows discounted at an appropriate rate for the risk of the debt. The fair value is within Level 3 of the fair value hierarchy (refer to the Fair Value Hierarchy table in Note 27 of the January 2020 Annual Report).

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

13. Trade payables and other liabilities (current)

	25 July 2020	27 July 2019 restated	25 Jan 2020
	£m	£m	£m
Trade payables	**191.5**	220.4	212.8
Refund liabilities	**5.6**	6.1	5.4
Other taxation and social security	**81.2**	64.1	73.4
Deferred revenue from the sale of gift cards	**64.3**	60.3	74.9
Share-based payment liability	**0.1**	0.4	0.2
Other creditors and accruals	**239.2**	238.1	225.3
	581.9	589.4	592.0

14. Corporate bonds

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

	Nominal value			Balance Sheet value		
	25 July 2020	27 July 2019	25 Jan 2020	**25 July 2020**	27 July 2019	25 Jan 2020
	£m	£m	£m	**£m**	£m	£m
Corporate bond 5.375% repayable 2021	**325.0**	325.0	325.0	**326.6**	327.6	327.0
Corporate bond 3.000% repayable 2025	**250.0**	200.0	250.0	**250.0**	200.0	250.0
Corporate bond 4.375% repayable 2026	**250.0**	250.0	250.0	**292.0**	287.0	286.7
Corporate bond 3.625% repayable 2028	**300.0**	300.0	300.0	**300.0**	300.0	300.0
	1,125.0	1,075.0	1,125.0	**1,168.6**	1,114.6	1,163.7

As explained in the January 2020 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 2020, the fair value of the Group's corporate bonds was £1,168.0m (July 2019: £1,185.6m, January 2020: £1,253.6m). The fair values are market values at the balance sheet date (IFRS 13 Level 1).

15. Share buybacks

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

	2020 Shares '000	**2020 £m**	2019 Shares '000	2019 £m
Shares in issue at start of year	**133,229**	**13.3**	138,605	13.9
Shares purchased for cancellation in the period	**(280)**	**-**	(5,040)	(0.5)
Shares in issue at July	**132,949**	**13.3**	133,565	13.4

The total cost of shares purchased for cancellation as shown in the Statement of Changes in Equity was £19.3m (2019: £280.2m).

16. Analysis of net debt

	25 July 2020 **£m**	27 July 2019 £m	25 Jan 2020 £m
Cash and short term deposits	**395.8**	156.9	86.6
Overdrafts and short term borrowings	**(35.5)**	(114.8)	(33.7)
Cash and cash equivalents	**360.3**	42.1	52.9
Unsecured bank loans	**-**	(160.0)	(40.0)
Corporate bonds	**(1,168.6)**	(1,114.6)	(1,163.7)
Fair value hedges of corporate bonds	**43.6**	39.2	38.7
Net debt excluding leases	**(764.7)**	(1,193.3)	(1,112.1)
Current lease liability	**(168.5)**	(154.5)	(172.3)
Non-current lease liability	**(1,144.1)**	(1,176.3)	(1,078.7)
	(1,312.6)	(1,330.8)	(1,251.0)
Net debt including leases	**(2,077.3)**	(2,524.1)	(2,363.1)

17. Leases

	25 July 2020 **£m**	27 July 2019 £m	25 Jan 2020 £m
Right-of-use asset	**857.0**	916.6	852.7
Maturity profile of lease liability			
Less than 1 year	**168.5**	154.5	172.3
More than 1 year	**1,144.1**	1,176.3	1,078.7
Total	**1,312.6**	1,330.8	1,251.0

During the period the Group entered into sales and leaseback transactions on its Elmsall warehouses and the Head Office in Leicester. As a result a lease liability of £122m and right-of-use asset of £87m was recognised. A gain of £7m was recognised on the sale and leaseback transactions.

18. Post balance sheet event

On 7 September 2020 NEXT entered into a joint venture agreement with Lbrands, a public limited company based in the United States.

Under the agreement a newly-formed joint venture company will acquire the majority of the assets of the Victoria's Secret UK business that is currently in administration. The joint venture will be 51% owned by NEXT and 49% owned by Lbrands. Further details of the joint venture are provided in the Chief Executive's Review.

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	**Amanda James**
Chief Executive	**Group Finance Director**

17 September 2020

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

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

Certain statements which appear in a number of places throughout this document are "forward looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to the risks described in "Risks & Uncertainties" on pages 60 to 64 of the 2020 Annual Report and those matters highlighted in the Chief Executive's review; failure by NEXT to accurately predict customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in 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.