

NEXT

INTERIM STATEMENT  
SIX MONTHS ENDED JULY 2004

# Chairman's Statement

I am pleased to report that NEXT has had a very satisfactory first half for 2004.

We achieved a 15% increase in turnover and a 30% increase in pre-tax profit. Earnings per share increased by 36%. The interim dividend is being increased by 2p to 13p per share.

At the Annual General Meeting on 13 May 2004 two of our non-executive directors retired from the Board and at the same time Jonathan Dawson was appointed. We intend to make another non-executive appointment in due course.

We continue to put all of our energy into providing well styled, good quality, value for money products to our customers in the core markets of the UK and Eire. Whilst the trading environment may become more difficult I am confident that NEXT has the strategy and the people to continue to take the company forward.

**David Jones CBE**  
Chairman

## Chief Executive's Review

In the six months to July 2004 the NEXT Group performed very well, albeit in a relatively benign competitive environment. Our primary financial objective is to deliver sustainable long term growth in Earnings Per Share. In the first half EPS increased by 35.7%, whilst operating profit increased by 29.8%. EPS continued to rise faster than operating profit as a result of share buybacks. Group turnover was up 15.4% on the previous year.

	Turnover excluding VAT		Profit and earnings per share		
	Six months to July 2004	2003	Six months to July 2004	2003 Restated	
	£m	£m	£m	£m	
NEXT Retail	924.3	797.4	114.9	85.8	
NEXT Directory	278.2	247.1	38.6	30.2	
The NEXT Brand	1,202.5	1,044.5	153.5	116.0	+32.4%
NEXT Franchise	14.2	13.2	2.5	2.4	
Ventura	64.1	52.9	6.4	5.9	
Other activities	12.7	10.4	10.1	8.6	
Share option charge	—	—	(0.6)	(0.4)	
	<u>1,293.5</u>	<u>1,121.0</u>	<u>171.9</u>	<u>132.5</u>	+29.8%
Interest expense			(9.2)	(7.2)	
Profit before tax			162.7	125.3	+29.8%
Taxation			(50.2)	(37.5)	
Profit after tax			<u>112.5</u>	<u>87.8</u>	+28.1%
Earnings per share			44.1p	32.5p	+35.7%

The interest charge has risen on last year as a result of increased levels of debt arising from the buybacks. Our interest rates are largely fixed and recent rises in base rate will not have a material effect on our charge.

A change in accounting standards in respect of employee share options requires that we restate the prior year charge, which was £2.5m, down to the £0.4m stated above. Further details are given in the section headed employee share ownership plan.

# Chief Executive's Review continued

## Overview

NEXT's strategy remains simple. We aim to provide great product ranges for our customers in areas where we can add something to the design of the product. We continue to improve access and choice through the expansion of our retail selling space and have again increased the number of customers shopping with us through the NEXT Directory. We will maintain strict discipline in the application of capital and the control of costs.

## NEXT Retail

### Sales

Total sales in NEXT Retail were 15.9% ahead of last year. Sales from new space contributed 13.3% whilst sales from the 320 stores that traded continuously without any significant capital expenditure grew by 2.6%. We believe it is important to measure the performance of the stores that were unaffected by planned deflection from new openings, as this gives an indication of the true like-for-like performance of our ranges. Underlying sales in the 285 stores that were unaffected by new openings were 4.7% ahead of last year.

### Space

The combined effect of improved values and broader product ranges has allowed us to profitably increase our selling space. We made good progress in the first half, adding a net 233,000 square feet and increasing the number of stores by 13. All new stores are appraised against two financial hurdles; they must make at least 15% branch profit before central overheads and must pay back the net capital invested in less than 24 months.

	July 2004	January 2004	July 2003	Annual Change
Store numbers	371	358	352	+5.4%
Square footage	3,077,000	2,844,000	2,570,000	+19.7%

We are now forecasting that the new space opened in the first half will beat our appraised sales targets by 19% and payback the net capital invested in 13 months.

We expect the net selling space increase for the full year to be around 480,000 square feet, taking our total to approximately 3.3 million square feet. We now believe that we will add at least the same amount of space in the year to January 2006.

### Retail Profit

Profit in NEXT Retail was up more than sales at 33.9% above last year. This exceptional performance was as a result of economies of scale over our fixed costs and an improvement in net margin from an improved clearance rate in the Sale. For the second half we are budgeting for profit growth to be broadly in line with sales growth.

## NEXT Directory

### Sales

Sales in NEXT Directory were 12.6% ahead of last year; this increase was higher than we planned for. However, much of the increase was as a result of improved stock availability, reduced returns rates and increased service charge revenues (despite a reduction in APR). We do not expect to see the same levels of improvement in these areas in the second half.

### Active Customers

Over the half year we increased the active customer base by 99,000 taking the total number to 1,759,000. As a result we begin the second half with 11.6% more customers than last year.

Recruitment has increasingly been focused on direct contact with the customers through our stores and internet site. The traditional methods of advertising and direct mail have proven significantly less cost effective than last year. We believe this may be a long term trend as these media become more saturated.

# Chief Executive's Review continued

## Directory Profit

Profit in Directory was up 28.0% on last year, which was significantly ahead of the growth in sales. This is largely due to comparing against the disappointing first half profits we delivered last year. In the second half of last year profitability dramatically improved so we will be up against much more demanding comparatives going forward. We are budgeting for an increase in second half Directory profit more in line with its increase in sales.

## Product Development

Delivering great product to our customers is the main focus of our business. We are product led and believe that the product makes the brand, not vice versa.

NEXT has invested significant time and energy into developing its sourcing base. This has enabled us to offer improved product at the same price and the same product at lower prices. We have achieved a 6% reduction in average selling prices without any sacrifice in margin or compromise to quality. We envisage that this process will continue though perhaps not at the rate we have seen in the Spring Summer season.

## Warehousing and Distribution

One of the consequences of broader product ranges, higher sales and lower average selling prices is the additional demands it places on our unit handling capacity in warehousing and distribution.

We will need to make significant investment over the next few years if we are to succeed in delivering further growth in sales. To this end we have successfully opened a new Home furnishings warehouse of 600,000 square feet this season. We are constructing a major extension to our boxed garment warehouse for 2005, plan to extend our hanging garment high bay warehouse in 2006 and open new boxed and Home warehouses in 2007/8.

The capital expenditure of £110m and related fixed costs in warehousing anticipated over the next four to five years is set out in the table below.

Anticipated completion	Warehouse	Capital expenditure £m	Depreciation £m	Rental costs £m	Increase in fixed costs £m
2004 (Open)	Home Products - New Site	10	1.0	2.0	3.0
2005	Boxed Garment - Extension	40	4.0	1.5	5.5
2006	Hanging Garment - Extension	10	1.0	—	1.0
2007	Boxed Garment - New Site	40	4.0	1.5	5.5
2008	Home Products - New Site	10	1.0	2.0	3.0

We believe that these facilities will give us the capacity to grow sales over the coming years by up to 50% and our units by more than that. There is little scope to gain further economies of scale over our existing fixed overheads.

## NEXT Franchise

Our 75 overseas franchise stores increased sales by 7.5% to £14.2m. Like-for-like sales in the 51 stores that traded continuously were 13.8% ahead of last year in local currency. Franchise profit grew by 6.9% to £2.5m. Profit growth continues to lag sales growth as a result of us moving away from a commission on the cost of merchandise to a royalty on sales. The royalty is paid after the stock is sold whereas commission is paid at the time of shipping.

## Ventura

Ventura has exceeded our expectations both in terms of profit and sales. In the first half profits were £6.4m as against £5.9m last year. Ventura has remained focused on delivering excellent prices to new and existing customers and as a result has continued to win new business. We have increased capacity by taking on a call centre in Cardiff and next year we plan to open a wholly owned call centre in India. This new call centre will handle activities that we currently sub-contract in India and provide additional capacity for new business; it will not replace any of the facilities we operate in the UK.

We expect Ventura to achieve profits in the second half of not less than those achieved in the first half.

# Chief Executive's Review continued

## Other Activities

Profits from other activities in the first half were £10.1m compared with £8.6m last year. The main contributors were our product sourcing companies NEXT Asia and NEXT Near East, which together made a profit of £10.4m compared with £9.6m last year. The operations of these companies will become more integrated over time and will be combined into one profit centre, NEXT Sourcing. Our property management division contributed £3.7m which included £1.6m profit from the disposal of freehold properties.

## Employee Share Ownership Plan Trust (ESOP)

The NEXT ESOP purchased a further 2.3 million shares at an average price of 1421p and holds 9.3 million shares purchased at a cost of £93m. The total number of share options outstanding is 9.6 million.

Due to a change in accounting standards we are required to recalculate the charge for share options. This results in reducing last year's first half charge of £2.5m down to £0.4m and a charge for this half year of £0.6m. The second effect is to move the shares held by the ESOP from net assets into reserves, reducing the stated July 2004 net assets by £83m.

## Risk Reward Plan

In July we announced that the executive directors and senior employees had made personal investments totalling £1.5 million in financial contracts based on the market price of NEXT shares in four years' time. Special bonuses totalling £2.0 million gross were granted to the participants (excluding myself), with the net proceeds also being invested. The success of these contracts will depend on the NEXT share price exceeding £20 in July 2008, equivalent to a minimum annual compound growth rate of 8.8% over the period. In order to achieve the maximum value the annual growth rate has to be 14.5%. There is no present or future liability for NEXT in respect of these contracts.

## Balance Sheet and Cash Flow

At the end of July NEXT had net borrowings of £340m, which included the £300m ten year bond issued last year. The net cash outflow of £33m was after expenditure of £44m on shares purchased for cancellation and £22m on increasing the number of shares held in the ESOP. Capital expenditure of £60m included £42m on retail stores and we anticipate that the full year spend will be approximately £135m. Merchandise stock levels for the Autumn season are 16.6% ahead of last year and in line with our requirements.

## Dividend

The Directors are pleased to declare an interim dividend of 13p, an increase of 18% over last year. This will be paid on 4 January 2005 to shareholders on the register at 26 November 2004. The shares will trade ex-dividend from 24 November.

## Share Buyback

During the first half we purchased for cancellation 1.2% of our shares in issue at an average price of 1404p.

## Current Trading

In the six weeks since 1 August sales in NEXT Retail are 14.9% ahead of last year. These figures were undoubtedly increased by around 1% due to our improved performance during the Sale.

Like-for-like sales in the 323 stores that have been trading continuously for at least one year and have not benefited from significant capital expenditure are 2.1% ahead of last year. Included in these stores are 37 stores that we anticipated would be affected by new store openings. Underlying sales in the 286 stores that have not been affected by new space are 4.5% ahead of last year.

Directory sales for the six weeks are 14.8% ahead of last year but have benefited as a result of the later release of our Autumn Winter catalogue. Last year it was released in early July, this year it went out two weeks later. As a result, Directory sales in July were reduced whilst those in August were boosted.

Taken together, sales for the NEXT Brand are 14.9% ahead of last year.

# Unaudited Statement of Group Results

for the six months ended July 2004

	Six months to July 2004 £m	Six months to July 2003 £m <i>Restated</i>	Year to January 2004 £m <i>Restated</i>
<b>Turnover</b>	<b>1,293.5</b>	<b>1,121.0</b>	<b>2,516.0</b>
<b>Operating profit</b>	<b>171.9</b>	<b>132.5</b>	<b>375.5</b>
Net interest payable	(9.2)	(7.2)	(17.3)
<b>Profit before taxation</b>	<b>162.7</b>	<b>125.3</b>	<b>358.2</b>
Taxation	(50.2)	(37.5)	(108.1)
<b>Profit after taxation</b>	<b>112.5</b>	<b>87.8</b>	<b>250.1</b>
Dividends	(32.3)	(27.5)	(89.3)
<b>Profit for the period transferred to reserves</b>	<b>80.2</b>	<b>60.3</b>	<b>160.8</b>
<b>Earnings per share</b> p	<b>44.1</b>	<b>32.5</b>	<b>93.9</b>
<b>Diluted earnings per share</b> p	<b>43.4</b>	<b>32.3</b>	<b>93.0</b>
<b>Dividend per share</b> p	<b>13.0</b>	<b>11.0</b>	<b>35.0</b>
<b>Shareholders' funds</b> £m	<b>170.5</b>	<b>161.7</b>	<b>155.1</b>

The accounts for the year to January 2004 are not full accounts within the meaning of Section 240 of the Companies Act 1985. Full accounts for that period incorporating an unqualified audit report have been delivered to the Registrar of Companies.

The results for the six months to July 2003 and the year to January 2004 have been restated following the implementation of UITF 38 Accounting for ESOP Trusts and the revision of UITF 17 Employee Share Schemes. All other accounting policies adopted are consistent with those set out in the accounts for the year ended January 2004.

Registered in England 4412362. Registered Office, Desford Road, Enderby, Leicester LE19 4AT.

## Balance Sheet

	July 2004 £m	July 2003 £m <i>Restated</i>	January 2004 £m <i>Restated</i>
<b>Fixed assets</b>			
Tangible assets	379	340	357
Goodwill	34	30	36
	<u>413</u>	<u>370</u>	<u>393</u>
<b>Net current assets</b>			
Stocks	283	246	270
Debtors	369	340	379
Creditors (less than one year)	(483)	(418)	(509)
Net short-term borrowings	(39)	(19)	(6)
	<u>543</u>	<u>519</u>	<u>527</u>
<b>Total assets less current liabilities</b>			
5.25% Bond due 2013	(300)	(300)	(300)
Creditors (more than one year)	(53)	(38)	(53)
Provision for liabilities and charges	(20)	(19)	(19)
	<u>170</u>	<u>162</u>	<u>155</u>
<b>Net assets</b>			

## Cash Flow

for the six months ended July 2004

	Six months to July 2004 £m	Six months to July 2003 £m <i>Restated</i>
Profit before taxation	163	125
Depreciation and disposals	40	34
Capital expenditure	(60)	(49)
Stocks	(13)	(2)
Debtors	10	(22)
Creditors	7	12
Dividends	(61)	(56)
Taxation	(53)	(43)
Purchase and issue of own shares by ESOP	(22)	(18)
Purchase of own shares for cancellation	(44)	(111)
	<u>(33)</u>	<u>(130)</u>
<b>Net cash outflow</b>		

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

Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences and prospects are "forward-looking statements" within the meaning of the United States federal securities laws. 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 various risks and uncertainties, including but not limited to failure by NEXT to predict accurately customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in levels of store traffic or consumer spending habits; effectiveness of NEXT's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; lack of sufficient consumer interest in NEXT Directory; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets.