NEXT

INTERIM STATEMENT
SIX MONTHS ENDED JULY 2005

NEXT

Chairman's Statement

NEXT has made solid progress in a very tough environment with earnings per share moving forward by 7.9% in the first half. This growth has been achieved as a result of the addition of profitable new space, healthy growth in Home Shopping through the NEXT Directory and prudent cost control. I have been impressed with the way in which NEXT has responded to tougher times.

We believe the next six months will see a continuation of these difficult trading conditions. However, at NEXT we have always taken the long view and we will continue to invest for the profitable development of the business.

David Jones CBE
Chairman

Chief Executive's Review

Introduction

Against a background of a tougher consumer environment NEXT has had a solid first half, with Brand sales up 8.2%, group profit before tax up 6.1% and earnings per share up by 7.9%.

Our core strategy for growth remains unchanged - we continue to focus on improving our product ranges, opening profitable new space for NEXT Retail, expanding our NEXT Directory customer base and using surplus cash to buy back shares. Inevitably the economic climate has placed a greater emphasis on cost control and here we have made some progress.

	Turnover excluding VAT Six months to July		Profit and earnings per share Six months to July		
	2005	2004	2005	2004 Restated	
	£m	£m	£m	£m	
NEXT Retail	**989.4**	924.3	**116.3**	112.2	
NEXT Directory	**311.8**	278.2	**45.6**	38.6	
The NEXT Brand	**1,301.2**	1,202.5	**161.9**	150.8	+7.3%
NEXT Franchise	**16.5**	14.2	**3.3**	2.5	
NEXT Sourcing	**5.3**	8.6	**13.6**	12.6	
Ventura	**70.1**	64.1	**3.7**	6.6	
Other activities	**3.7**	4.1	**0.4**	0.9	
Share option charge	**–**	–	**(2.9)**	(1.6)	
Unrealised exchange gain	**–**	–	**1.2**	–	
	1,396.8	1,293.5	**181.2**	171.8	+5.5%
Interest expense			**(8.6)**	(9.2)	
Profit before tax			**172.6**	162.6	+6.1%
Taxation			**(52.7)**	(49.2)	
Profit after tax			**119.9**	113.4	+5.7%
Earnings per share			**47.9p**	44.4p	+7.9%

IFRS Accounting Standards

The above results have been prepared under the new International Financial Reporting Standards (IFRS) and prior year figures have been restated. With effect from the current year only, a requirement of these standards is the recognition of unrealised gains and losses on outstanding foreign exchange contracts. This has resulted in the unrealised gain reported above which, in our opinion, overstates profit by £1.2m.

Chief Executive's Review continued

NEXT Retail

Retail Sales

Sales in NEXT Retail were 7.0% ahead of last year. Like-for-like sales in stores that traded continuously and were not affected by the opening of new space were – 2.9% down on last year. New stores contributed 13% to sales of which we believe 3.1% reduced the sales of existing outlets.

Sales from new space	13.0%
Deflection	–3.1%
Like-for-like	–2.9%
Total sales growth	**7.0%**

New Space

We have made good progress in developing profitable new selling space. In the first half we added a net 437,000 square feet and increased the number of stores by 27 to a total of 411.

	July 2005	Jan 2005	July 2004	Annual change
Store numbers	**411**	384	371	**+10.8%**
Square footage	**3,764,000**	3,327,000	3,077,000	**+22.3%**

The majority (87%) of new space came from opening stores in out of town retail parks where the combined offer of Womens, Mens, Childrens and Home gives us the critical mass required to make these locations a success.

All new stores are appraised on the basis that they must make a net store profit of at least 15% on sales before central overheads and pay back the net capital invested in less than 24 months. In assessing the payback we account for the loss of profit from nearby stores that we expect to suffer a downturn as a result of the new opening. We are now forecasting that the new space opened in the first half will beat our appraised sales targets by 3.5% and pay back the net capital invested in 17 months.

We now expect the net selling space increase for the full year to be around 940,000 square feet, taking the total to approximately 4.25 million square feet.

Retail Profit

Profit in Retail increased by 3.6% compared with the 7% increase in sales. Net operating margin was down from 12.1% to 11.7%. The erosion in margin is explained in the table below, the figures show the change as a percentage of sales for each of our major heads of cost.

Net operating margin last year	12.1%
Net achieved buying margin	+0.2%
Branch occupancy costs	– 0.8%
Branch wage costs	+0.2%
Central overheads	–
Net operating margin this year	**11.7%**

The net achieved margin is up slightly as increased markdown costs have been more than offset by improved buying margins. Branch occupancy costs rose significantly due to declining like-for-like sales and step changes in rates and electricity. Branch wages have reduced as a percentage of sales as a result of a significant effort to improve efficiency of stock handling in the branches. We have not achieved any leverage over central overheads, where increases in warehousing costs offset economies of scale elsewhere.

NEXT Directory

Directory Sales

Directory has performed well despite the tough consumer environment. Sales were 12.1% ahead of last year. The increase in underlying demand (the goods requested by customers) was 9.6% and lower returns rates resulted in a higher sales increase.

An increase in our customer base has been the main driver of sales growth. The average number of active customers throughout the season was 14.0% ahead of last year. However sales per customer were down –1.7% which we believe is indicative of the general consumer environment.

Chief Executive's Review continued

New Customers

The recruitment of new customers went well. Over the half year we increased the active customer base by 128,000 taking the total number to 2,033,000. As a result we begin the second half with 15.6% more customers than the same time last year. Recruitment over the internet and from stores continues to become more important as traditional direct mail and advertising become less effective. Whilst we expect to grow our customer base through the Autumn Winter season we do not envisage maintaining the exceptional levels of growth experienced in the first half.

Directory Profit

Directory profit was up 18.1% on last year, which was significantly ahead of the growth in sales. The improvement in net operating margin is explained in the table below, the figures show the change as a percentage of sales for each of our major heads of cost.

Net operating margin last year	13.9%
Net achieved buying margin	+0.5%
Bad debt provisions	– 0.6%
Central overheads	+0.8%
Net operating margin this year	**14.6%**

Improved buying margins and good cost control were the main reasons for the improvement in profitability. The move to lower cost methods of recruitment has been particularly important in reducing overheads. On the negative side we have seen a significant rise in bad debt rates, we believe this is due to the poor economic environment and underlying levels of bad debt may well rise further in the months ahead.

Directory Services

We continue to investigate ways to improve the cost effectiveness of our service. As part of this initiative we intend to develop our own Home Delivery distribution network when the current contract expires with our existing providers in 2008.

Product Development

Delivering great product to our customers remains the main focus of our business. We have continued to re-invest the benefits of better buying into improving quality and lowering prices.

Generally we have been happy with our product ranges and believe that poor sales have mainly been the result of the consumer environment. However, we have identified the opportunity to improve the speed at which we incorporate new trends into our Womenswear ranges. We currently add new design themes (collections) into our stores every 12 weeks. Going forward we have increased the frequency of our design workshops in order to add new collections every six weeks. Whilst there will be some benefits from this change in the season ahead, the full advantages will not be felt until the Spring of next year.

Warehousing and Distribution

In my last annual review I gave details of the very significant investments being made in warehousing this year and in the years ahead. There are two major projects in the current year. We have successfully opened, on schedule, a 525,000 square feet palletised warehouse mainly for Home product, which cost £3.7m to fit out. In September we plan to open a 656,000 square feet extension to our boxed warehouse. This highly mechanised warehouse has cost £40m to fit out and will add £5.4m to the annual rent and depreciation charge. It is on schedule and the final stages of testing are currently being undertaken.

Quota

The sudden decision to re-impose quotas for exports from China was rapidly followed by the total utilisation of all knitwear quota. This left retailers in the position of owning stock (some of which had actually been shipped) for which they did not have an import licence. NEXT owned £1.5m of stock falling into this category. We now believe that we will be able to import most of this stock into the UK as a result of the recent agreement between the EU and China.

The longer term problem relates to stock that has not been manufactured but has been contracted for. We believe that we can re-source most of this future commitment through alternative routes. The short term risk of using alternative routes is that stock is delayed in arriving in the UK, the longer term risk is that these routes are more expensive and therefore inflationary.

Ironically, although unsurprisingly, almost all of the commitment prevented from coming out of China will still be sourced from countries outside of the European Union. So whilst the restrictions will cause inconvenience and may prove costly to UK consumers they will have little or no benefits for European manufacturing.

Chief Executive's Review continued

NEXT Franchise

Sales to our franchise partners increased by 15.7% to £16.5m and profit grew by 30.8% to £3.3m. There are now 87 stores and a further 6 are scheduled to open in the second half of this year. The unusually high percentage growth in profits is a result of last year being held back by a move towards royalty on sales rather than commission on shipping. For the full year, growth in franchise profits will be more in line with growth in sales.

NEXT Sourcing

The merging of our Near East and Far East sourcing operations has been completed and our major overseas offices now operate under one management team. NEXT Sourcing profit for the half year was £13.6m compared to £12.6m last year. We continue to anticipate that the full year profit will be similar to last year's, as restated under IFRS with no amortisation of goodwill.

Ventura

In the first half profits were £3.7m as against £6.6m last year. There are two reasons why Ventura's profits are disappointing. Firstly Ventura had a very poor first quarter as business volumes from some of its major clients were below expectations. This trend did not continue into the second quarter which was significantly better and ahead of last year. The second reason was that last year's first half benefited from the tail end of two very profitable contracts which did not continue into the second half.

We have now opened our own call centre in India and are in the process of transferring some of the activities that are currently handled in India through a subcontractor, including some of the NEXT Directory processes. In March I reported that we expected Ventura's profit for the year to be in the order of £10m and, despite the slow start, we still believe that this is achievable.

Other Activities

Net income from other activities in the first half was £0.4m compared with £0.9m last year.

Our property management division contributed £3.8m which included £2.8m profit from the disposal of two freehold properties. In the future there will be fewer properties to sell, so this source of profit will decline, and the underlying net annual contribution from rental income will be in the region of £3m. During the period an associated company, Cotton Traders, purchased for cancellation part of our shareholding in it and this resulted in a provision release of £1.2m.

Net Central Costs were £5.1m compared with £5.2m last year, including additional pension charges of £3.4m and £2.7m respectively.

Employee Share Options

The way we calculate the annual charge for employee share options has changed as a result of IFRS 2. The new method only applies to options issued after November 2002 and uses a mathematical formula rather than actual cash cost. We estimate that the full year charge will be £7m, rising to £10m over the next two years.

Despite the rise in the accounting cost of share options we will not change our policy of issuing options to our employees, nor our management of the resulting exposure by purchasing and holding shares in the Employee Share Ownership Trust (ESOT). We believe this method is the best way to minimise the true cash cost of the options. At the end of July the ESOT held 8.5 million shares, purchased at a cost of £91m, and there were 10.7 million share options outstanding.

Risk Reward Plan 2005-2009

In July shareholders voted overwhelmingly in favour of NEXT's Risk Reward plan. The aim of this plan is that the company, by matching investments made by senior employees, enables key individuals to make an exceptional return on their investment, but only if the company makes exceptional returns for shareholders. In order to participate employees must risk their own money, which will be lost unless very challenging targets are met.

Senior employees made investments of £0.5m. A contribution of £1.2m was made by the Company to the ESOT to purchase similar investments. These investments will have no value unless the share price exceeds £20.50 in July 2009, equivalent to compound growth of 8.2%. In order to achieve the maximum value our shares must reach £25.00, compound growth of 13.7%. There is no additional future liability for NEXT in respect of these contracts.

Balance Sheet and Cash Flow

At the end of July NEXT had net borrowings of £354m, financed primarily by the £300m bond which matures in 2013. The net cash outflow of £100m was after expenditure of £71m on shares purchased for cancellation. Capital expenditure of £94m included £65m on retail stores and we anticipate that the full year spend will be approximately £200m. Merchandise stock levels for the Autumn season are 16% ahead of last year, this increase is higher than our budgeted increase in sales as a result of the timing of deliveries into our warehouses.

Share Buybacks

During the first half we purchased for cancellation 1.8% of our shares in issue at an average price of 1544p.

Chief Executive's Review continued

Dividend

The Directors are declaring an interim dividend of 14p, an increase of 7.7% over last year. This will be paid on 3 January 2006 to shareholders on the register at 25 November 2005. The shares will trade ex-dividend from 23 November.

Current Trading

For the six weeks to 10 September, NEXT Retail sales are 4.6% ahead of the previous year. Like-for-like sales in the 276 stores which have been trading for at least one year and have not been affected by the opening of new space are down –6.0%. We believe the effect of deflection from the opening of new space is running at –3.1%.

Sales from new space	13.7%
Deflection	–3.1%
Like-for-like	–6.0%
Retail sales growth	**4.6%**

Directory sales for the six weeks are 13.3% ahead of the previous year.

Taken together, sales for the NEXT Brand are 6.9% ahead.

Outlook

We are very cautious about the outlook for the consumer environment in the second half. We believe that a return to underlying growth will come with a significant reduction in interest rates and that inflationary pressures, most notably from oil and services, may delay that event. It would therefore seem unlikely that there will be any significant improvement in market conditions in the second half of this year.

We do not expect the rest of the season will be as poor as the last six weeks in NEXT Retail, but we are anticipating negative underlying like-for-like sales in the second half.

We anticipate that NEXT Directory will continue to grow.

Simon Wolfson
Chief Executive

15 September 2005

Unaudited Consolidated Income Statement

		Six months to July 2005 £m	Six months to July 2004 £m *Restated*	Year to January 2005 £m *Restated*
Revenue		**1,396.8**	1,293.5	2,858.5
Trading profit		**181.3**	172.7	444.2
Share option charge		**(2.9)**	(1.6)	(3.9)
Unrealised exchange gain		**1.2**	–	–
Share of results of associates		**1.6**	0.7	2.2
Operating profit before interest		**181.2**	171.8	442.5
Finance income		**0.7**	0.5	1.6
Finance costs		**(9.3)**	(9.7)	(19.8)
Profit before taxation		**172.6**	162.6	424.3
Taxation		**(52.7)**	(49.2)	(118.9)
Profit attributable to equity holders of the parent		**119.9**	113.4	305.4
Earnings per share	p	**47.9**	44.4	120.2
Diluted earnings per share	p	**47.3**	43.7	118.4
Dividend per share	p	**14.0**	13.0	41.0

Unaudited Consolidated Statement of Recognised Income and Expense

	Six months to July 2005 £m	Six months to July 2004 £m *Restated*	Year to January 2005 £m *Restated*
Exchange differences on translation of foreign operations	**2.5**	0.9	0.6
Gains on cash flow hedges	**21.0**	–	–
Actuarial gains/(losses) on defined benefit pension schemes	**2.4**	5.2	(10.5)
Tax on items recognised directly in equity	**(3.4)**	0.4	3.2
Net income recognised directly in equity	**22.5**	6.5	(6.7)
Fair value adjustments			
Transferred to profit on cash flow hedges	**5.5**	–	–
Transferred to carrying amount of hedged items on cash flow hedges	**(3.3)**	–	–
Profit for the year	**119.9**	113.4	305.4
Total recognised income and expense for the period	**144.6**	119.9	298.7
Opening balance sheet adjustment for adoption of IAS 32 and IAS 39 (Note 6)	**(43.7)**	–	–
	100.9	119.9	298.7

Notes

Gains on cash flow hedges relate to unrealised mark to market movements on foreign exchange derivative contracts which are designated and effective as hedges of future cash flows.

Fair value adjustments relate to the transfer to the income statement and balance sheet of gains and losses on cash flow hedges previously recognised in equity.

Unaudited Consolidated Balance Sheet

	July 2005 £m	July 2004 £m Restated	January 2005 £m Restated
Non-current assets			
Property, plant & equipment	**473.7**	378.5	424.0
Intangible assets	**36.2**	36.2	36.2
Interests in associates	**1.5**	1.1	1.5
Deferred tax assets	**17.6**	22.9	24.0
	529.0	438.7	485.7
Current assets			
Inventories	**326.5**	281.8	301.6
Trade and other receivables	**448.5**	370.2	437.4
Other financial assets	**21.6**	–	–
Cash and short term deposits	**77.0**	61.6	72.3
	873.6	713.6	811.3
Total assets	**1,402.6**	1,152.3	1,297.0
Current liabilities			
Bank overdrafts	**(5.9)**	(10.8)	(22.3)
Unsecured bank loans	**(120.3)**	(90.0)	–
Trade and other payables	**(509.1)**	(428.3)	(506.3)
Other financial liabilities	**(29.8)**	–	–
Current tax liability	**(54.7)**	(56.1)	(59.8)
	(719.8)	(585.2)	(588.4)
Net current assets	*153.8*	*128.4*	*222.9*
Non-current liabilities			
Corporate bond	**(304.6)**	(300.0)	(300.0)
Net retirement benefit obligation	**(91.0)**	(81.4)	(92.6)
Provisions	**(10.0)**	(10.0)	(10.0)
Other liabilities	**(30.0)**	(31.1)	(29.5)
	(435.6)	(422.5)	(432.1)
Total liabilities	**(1,155.4)**	(1,007.7)	(1,020.5)
Net assets	**247.2**	144.6	276.5
Equity			
Share capital	**25.7**	26.2	26.1
Share premium account	**0.7**	0.6	0.6
Capital redemption reserve	**4.2**	3.7	3.8
ESOT reserve	**(91.1)**	(93.5)	(93.3)
Share based payment reserve	**8.4**	3.2	5.5
Fair value reserve	**17.6**	–	–
Foreign currency translation reserve	**3.1**	0.9	0.6
Other reserves	**(1,441.4)**	(1,437.1)	(1,439.5)
Retained earnings	**1,720.0**	1,640.6	1,772.7
Total equity	**247.2**	144.6	276.5

Unaudited Consolidated Cash Flow Statement

	Six months to July 2005 £m	Six months to July 2004 £m Restated	Year to January 2005 £m Restated
Cash flows from operating activities			
Profit before interest	**181.2**	171.8	442.5
Adjustments for:			
Depreciation	**36.9**	32.3	69.0
Profit on disposal of property, plant and equipment	**(0.6)**	(0.8)	(0.9)
Share option charge	**2.9**	1.6	3.9
Unrealised exchange gain	**(1.2)**	–	–
Share of profit of associate companies	**–**	(0.2)	0.5
Exchange movement	**1.0**	0.9	1.2
Operating profit before changes in working capital and provisions	**220.2**	205.6	516.2
Increase in inventories	**(24.9)**	(13.2)	(33.0)
Increase in trade and other receivables	**(11.3)**	9.4	(57.7)
Increase in trade and other payables	**2.1**	9.7	84.6
Pension obligation adjustment	**0.8**	(0.3)	(3.1)
Cash generated from operations	**186.9**	211.2	507.0
Corporation taxes paid	**(52.5)**	(53.1)	(117.1)
Net cash flows from operating activities	**134.4**	158.1	389.9
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**8.1**	5.8	7.7
Acquisition of property, plant and equipment	**(93.8)**	(60.1)	(144.0)
Purchase of investment in associate company	–	–	(1.2)
Purchase of other financial assets	**(1.3)**	–	–
Net cash flows from investing activities	**(87.0)**	(54.3)	(137.5)
Cash flows from financing activities			
Proceeds from the issue of share capital	**0.1**	–	–
Repurchase of own shares	**(70.8)**	(43.8)	(57.3)
Purchase of own shares by ESOT	**(8.0)**	(32.9)	(41.1)
Proceeds from disposal of shares by ESOT	**8.9**	10.4	16.0
Proceeds/(repayment) of unsecured bank loans	**120.3**	30.0	(60.0)
Interest paid	**(8.9)**	(9.9)	(20.4)
Interest received	**0.9**	0.5	1.4
Payment of finance lease liabilities	**(0.1)**	(0.1)	(0.2)
Dividends paid	**(70.1)**	(61.1)	(94.2)
Net cash flows from financing activities	**(27.7)**	(106.9)	(255.8)
Net increase/(decrease) in cash and cash equivalents	**19.7**	(3.1)	(3.4)
Opening cash and cash equivalents	**50.0**	53.9	53.9
Effect of exchange rate fluctuations on cash held	**1.4**	–	(0.5)
Closing cash and cash equivalents (Note 5)	**71.1**	50.8	50.0

Notes to the Unaudited Consolidated Interim Financial Statements

1. Basis of Preparation

The Group's interim results for the six months ended 30 July 2005 are the first to be prepared in accordance with International Financial Reporting Standards ('IFRS'). Consequently, a number of the accounting policies adopted in the preparation of these condensed consolidated interim financial statements are different to those adopted in the financial statements for the year to 29 January 2005 which were prepared under UK Generally Accepted Accounting Practice.

Details of the changes in accounting policies arising from the adoption of IFRS, together with restated financial information for the six months ended 31 July 2004 and the year ended 29 January 2005, have previously been published on the Group's website, www.next.co.uk.

With the exception of financial instruments, as detailed below, the accounting policies set out in that document have been consistently applied to all periods presented in these condensed consolidated financial statements.

Financial Instruments

In accordance with IFRS 1 *First Time Adoption of International Financial Reporting Standards,* the Group has elected not to restate comparative information for the impact of IAS 32 and IAS 39 *Financial Instruments.* The opening balance sheet at 30 January 2005 has been adjusted to reflect the adoption of these standards from that date and details of these adjustments and the revised accounting policies are set out in Note 6 below.

2. Statement of Compliance

The Group has prepared its condensed consolidated interim financial statements in accordance with the IFRS accounting policies the Group expects to apply in its first IFRS compliant full year financial statements and the provisions of IFRS 1. The condensed consolidated interim financial statements are unaudited and do not include all of the information required for full annual financial statements.

The financial information for the year to January 2005 does not represent 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.

3. Earnings per Share

The calculation of earnings per share is based on £119.9m (2004: restated £113.4m) being the profit for the six months after taxation and 250.3m ordinary shares of 10p each (2004: 255.2m), being the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOT during the year.

Diluted earnings per share is based on £119.9m (2004: restated £113.4m) being the profit for the six months after taxation and 253.7m ordinary shares of 10p each (2004: 259.1m) being the weighted average number of shares used for the calculation of earnings per share above increased by the dilutive effect of potential ordinary shares from employee share option schemes of 3.4m shares (2004: 3.9m shares).

4. Reconciliation of Net Assets

	Six months to July 2005 £m	Six months to July 2004 £m *Restated*	Year to January 2005 £m *Restated*
Total recognised income and expense	**144.6**	119.9	298.7
Equity dividends declared	**(70.8)**	(61.1)	(94.2)
Purchase of own shares for cancellation	**(70.8)**	(43.8)	(57.3)
Contingent share purchase contracts	**7.5**	–	–
Issue of new shares	**0.1**	–	–
Purchase of own shares by ESOT	**(8.0)**	(32.9)	(41.1)
Proceeds from issue of shares by ESOT	**8.9**	10.4	16.0
Share option charge	**2.9**	1.6	3.9
Total movement during the period	**14.4**	(5.9)	126.0
Opening net assets (as restated)	**232.8**	150.5	150.5
Closing net assets	**247.2**	144.6	276.5

Notes to the Unaudited Consolidated Interim Financial Statements
continued

5. Analysis of Net Debt

	January 2005 £m	Cash flow £m	Other non-cash changes £m	**July 2005 £m**
Cash and short term deposits	72.3			**77.0**
Overdrafts	(22.3)			**(5.9)**
Cash and cash equivalents	50.0	19.7	1.4	**71.1**
Unsecured bank loans	–	(120.3)	–	**(120.3)**
Corporate bond	(300.0)	–	(4.6)	**(304.6)**
Finance leases	(0.8)	0.1	–	**(0.7)**
Total net debt	(250.8)	(100.5)	(3.2)	**(354.5)**

6. Adoption of IAS 32 and IAS 39

Derivative financial instruments

The Group uses derivative financial instruments in order to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products, and changes in interest rates relating to the Group's debt. In accordance with the Group's treasury policy, the Group does not enter into derivative financial instruments for speculative purposes.

Derivative financial instruments are stated at their fair value. The fair value of forward exchange contracts and currency options is their quoted market value at the balance sheet date, being the present value of the quoted forward price. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates.

Hedge accounting

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. For these cash flow hedges, when the asset or liability for the hedged transaction is recognised in the balance sheet, the associated gains or losses on the hedging instrument previously recognised in equity are included in the carrying amount of the hedged asset or liability. Gains or losses realised on cash flow hedges are therefore recognised in the income statement in the same period as the hedged item.

The Group uses interest rate derivatives as fair value hedges of the interest rate risk associated with the Company's £300m corporate bond. The carrying amount of the bond is adjusted only for changes in fair value attributable to interest rate risk and this value adjustment is recognised in the income statement. Any gain or loss from restating the related interest rate derivatives at their market value is also recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the income statement.

Changes in the fair value of derivative financial instruments which do not qualify for hedge accounting are recognised in the income statement as they arise.

Contingent purchase contracts

The Group also makes use of contingent contracts for the purchase of its own shares. These derivative contracts are accounted for as equity transactions and the contracts are not stated at their market values. The present value of the obligation to purchase the shares is recognised in full at the inception of the contract, even where that obligation is conditional. Any subsequent reduction in the total obligation arising from the early termination of a contract is credited back to equity at the time of termination.

Notes to the Unaudited Consolidated Interim Financial Statements

continued

6. Adoption of IAS 32 and IAS 39 (continued)

Reconciliation of net assets at 30 January 2005

	£m	£m
Current assets: other financial assets		
Recognition of foreign exchange derivatives at fair value		2.4
Current liabilities: other financial liabilities		
Recognition of interest rate swaps at fair value	(9.0)	
Recognition of foreign exchange derivatives at fair value	(10.6)	
Recognition of contingent share purchase contracts	(36.4)	
		(56.0)
Restatement of corporate bond to fair value		7.4
Deferred tax adjustment on recognition of derivatives		2.5
Opening balance sheet adjustment for adoption of IAS 32 & 39		(43.7)
Net assets at January 2005 under IFRS as previously stated		276.5
Net assets at January 2005 after adoption of IAS 32 & 39		232.8

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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

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.