



INTERIM STATEMENT  
SIX MONTHS ENDED JULY 2006

# NEXT

## Chairman's Statement

NEXT has made further progress in a turbulent retail market with earnings per share moving forward by 11.3% in the first half. This has been achieved by the continued development of the NEXT Brand, efficiency improvements within the group and increasing financial leverage through reducing the number of shares in issue.

We believe that a clear focus on the design, value and efficient delivery of our products, both through our stores and the NEXT Directory, continues to be the strategy which will deliver the best returns to our shareholders.

I have been impressed by the resilience NEXT has shown in producing these results. I am confident that the management team is well prepared to face the challenging market conditions which lie ahead.

**John Barton**  
Chairman

## Chief Executive's Review

### INTRODUCTION

NEXT increased operating profits in the first half by 5.8% despite very difficult trading conditions. An excellent performance in NEXT Directory combined with good cost control across the group more than compensated for a disappointing performance in NEXT Retail.

Earnings per share have moved forward by more than operating profits as a result of share buybacks and are 11.3% ahead of last year.

	Turnover excluding VAT		Profit and earnings per share		
	Six months to July		Six months to July		
	2006	2005	2006	2005	
	£m	£m	£m	£m	
NEXT Retail	1,029.7	989.4	111.1	120.6	
NEXT Directory	359.4	311.8	59.6	41.3	
The NEXT Brand	1,389.1	1,301.2	170.7	161.9	+5.5%
NEXT Franchise	22.0	16.5	2.5	3.3	
NEXT Sourcing	2.9	5.3	15.6	13.6	
Ventura	92.7	70.1	9.7	3.7	
Other activities	3.8	3.7	(2.2)	0.4	
Share option charge	—	—	(4.1)	(2.9)	
Unrealised exchange (loss)/gain	—	—	(0.5)	1.2	
Turnover and operating profit	1,510.5	1,396.8	191.7	181.2	+5.8%
Interest expense			(12.8)	(8.6)	
Profit before tax			178.9	172.6	+3.6%
Taxation			(54.9)	(52.7)	
Profit after tax			124.0	119.9	+3.4%
Earnings per share			53.3p	47.9p	+11.3%

# NEXT

## Chief Executive's Review continued

### NEXT RETAIL

#### Retail Sales

Sales in NEXT Retail were 4.1% ahead of last year. Like for like sales in stores that traded continuously and were not affected by the opening of new space were -7.5% down on last year. Weak full price like for like sales of -6.6% in the first half were exacerbated by a particularly poor first week of Sale. The Sale was at the same time as last year; which in the current retail environment may have been too late, and initial markdowns may not have been aggressive enough. For next year we will review both the timing of the Summer Sale and the level of markdowns. All residual Sale stock has been written down, current stocks are clean and in line with our Autumn/Winter requirements.

#### New Space

In the first half we added a net 230,000 square feet and increased the number of stores by 18 to a total of 457.

	July 2006	Jan 2006	July 2005	Annual change
Store numbers	457	439	411	+11.2%
Square footage	4,539,000	4,309,000	3,764,000	+20.6%

We estimate that payback of the net capital invested in new space will be 17 months, which will be well within our investment criteria of 24 months. When appraising a new store we account for the loss of sales and profit from nearby stores that we expect to suffer a downturn as a result of the new opening. Sales from new space, net of this deflection, are now forecast to be 0.2% ahead of our original target.

We now expect the net selling space increase for the full year will be around 500,000 square feet, taking the total to approximately 4.8 million square feet by January 2007.

#### New Shop Fit

In May we launched a new shop fit concept in our Oxford Circus branch. This has been well received by our customers and we estimate that sales have benefited by about 8% in the three shops that have been updated. However, we expect these sales increases to be short term and it would be unwise to assume any long term uplift in sales as a result of the refit programme.

By the end of this financial year we anticipate that we will have refitted 364,000 square feet of our existing portfolio and opened 336,000 square feet of new space in the new format.

#### Retail Profit

Profit in NEXT Retail decreased by -7.9% compared with the 4.1% increase in total sales. Net operating margin was down from 12.2% to 10.8%. The erosion in margin is detailed 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	12.2%
Increase in bought in gross margin	+1.4%
Higher markdowns and obsolescence	-0.6%
Increase in branch occupancy costs	-1.9%
Increase in branch wage costs	-0.5%
Reduction in central overheads	+0.2%
Net operating margin this year	10.8%

The improved bought in gross margin was a result of better sourcing, in achieving this we have neither compromised quality nor increased prices to our customers. Markdown and obsolescence worsened by -0.6% as a result of more stock going into the end of season Sale.

Branch occupancy costs increased as a percentage of sales due to the impact of lower like for like sales on fixed expenses, such as rent. Energy prices and rates also rose significantly. Branch wages increased as a result of cost of living wage rises but otherwise reflect a good level of control. Some stores with negative like for like sales experienced diseconomies as they were already operating on minimum levels of staffing.

# NEXT

## Chief Executive's Review continued

### NEXT DIRECTORY

#### Directory Sales

NEXT Directory has performed well. Sales were 15.3% ahead of last year mainly driven by increased numbers of active customers. The average number of active customers during the period was 8.6% ahead of last year. Improved stock availability meant that sales were also ahead of the underlying demand which was 9.7% up on last year. The internet has become a significant part of NEXT Directory's business and we now take 45% of its sales on-line.

#### New Customers

Over the half year we increased the active customer base by 35,000 taking the total number to 2,149,000. As a result we begin the second half with 5.7% more customers than the same time last year. We expect that growth in customer numbers will be in the order of 5% throughout the second half.

#### Directory Profit

NEXT Directory profit was up 44.7% on last year; an exceptional performance, which was significantly ahead of the growth in sales. The improvement in net operating margin is detailed in the table below, the figures show the change as a percentage of sales for each of our major heads of cost.

<b>Net operating margin last year</b>	<b>13.2%</b>
Increase in bought in gross margin	+1.0%
Higher markdowns and obsolescence	- 1.8%
Bad debt and service charge	- 0.4%
Reduction in central overheads	+4.6%
<b>Net operating margin this year</b>	<b><u>16.6%</u></b>

The bought in gross margin in NEXT Directory was up 1%. We retained much more of the Sale stock in NEXT Directory this year, rather than transfer it to NEXT Retail, so the markdown charge in NEXT Directory increased by 1.8%. Bad debt provisions increased as levels of customer default continued to rise faster than service charge income.

We made very considerable savings to operational costs in the half year and benefited from further economies of scale. Warehouse and distribution costs reduced as a percentage of sales by 3.3% due to revised operating methods and new warehousing. Increased use of the internet and the benefit of our own call centre in India delivered a 1.0% margin improvement.

Last year we investigated developing our own distribution network for NEXT Directory. We concluded that the best solution in terms of cost and quality of service was to renew the contract with our current provider; which we have done.

### RETAIL AND DIRECTORY COST ALLOCATION

As NEXT Directory has continued to grow faster than NEXT Retail we have reviewed the allocation of costs between the two businesses. NEXT Directory has not previously received a charge for the customer collection and return services provided in store, nor for preparation of Sale stock moved into NEXT Retail. This year NEXT Retail has charged £4.7m to NEXT Directory. In order to facilitate comparisons we have adjusted last year's figures for the comparable charge of £4.3m. There is no change to the total NEXT Brand profit as a consequence.

### PRODUCT

Over the last year we have changed our working practices and broadened our supplier base in order to be more responsive to new trends. The success of the ranges in NEXT Directory is testament to the effectiveness of these improvements. In NEXT Retail our womenswear had far too many different items in the range. This resulted in confusing instore presentation and lack of stock depth on key lines. The number of lines for Autumn/Winter has been reduced by more than 10% compared to last year; and this is reflected in clearer instore presentation.

New product trials in the NEXT Directory of precious jewellery and electricals have been successful and we will continue to develop these ranges in Autumn/Winter.

# NEXT

## Chief Executive's Review continued

### LIME

At the beginning of the year we announced that we would be launching a value sub-brand in our clearance stores called Lime. This range has started better than originally anticipated and we will be opening several trial stand alone stores in the second half to gauge whether Lime could operate as an independent brand. These trial stores are all existing NEXT stores that were due to be vacated as part of our ongoing store expansion programme.

### NEXT FRANCHISE

Sales to franchise partners increased by 33.8% to £22.0m. Underlying profits increased by 8.2% prior to allocating £1.1m of fixed overheads previously treated as a cost of the NEXT Brand. We will continue to see turnover and profits growing at different rates due to the timing of new store openings and product shipments, and due to the later recognition of royalty income on sales. During the period 9 additional stores were opened in countries where we already operate and 7 stores were opened in Russia. There are now 112 franchise stores and a further 20 are scheduled to open in the second half of this year.

### NEXT SOURCING

NEXT Sourcing profit for the half year was £15.6m compared to £13.6m last year. We anticipate that profit in the second half will be similar to the £19m reported last year. We have opened our own sourcing office in southern India to complement our existing arrangements in the northern region.

### VENTURA

A strong performance by Ventura in the first half resulted in profits of £9.7m against £3.7m last year, which had a very poor first quarter. Our own call centre in Pune, India has been open for one year and we shall be opening another call centre in Leeds later this year to accommodate new business. We anticipate that sales and profit in the second half will be similar to that achieved in the first half.

### OTHER ACTIVITIES

Other activities were a loss of £2.2m in the first half compared with a profit of £0.4m last year.

Our property management division contributed £3.0m, down on last year which included profits from the disposal of freehold properties. Associates contributed £0.7m, down on last year which included a capital profit of £1.2m. Net Central Costs were £5.9m, including an additional pension charge of £2.8m.

### EMPLOYEE SHARE OPTIONS

The charge increased to £4.1m from £2.9m due to the phased calculation under IFRS. We estimate that the full year charge will be £9m. At the end of July the ESOT held 7.7 million shares which were purchased at a cost of £91.5m, there were 10.3 million share options outstanding.

### BALANCE SHEET AND CASH FLOW

At the end of July net borrowings were £660m, financed by the £300m bond which matures in 2013 and £700m of medium term bank facilities. It is intended to refinance part of the bank facilities through the issue of another long term bond in the near future, subject to market conditions.

The net cash outflow for the period of £296m was predominantly £279m in respect of shares purchased for cancellation. Capital expenditure of £71m included £44m on retail stores and we anticipate that the full year spend will be approximately £140m in total. Stock levels for the Autumn season are 3.8% ahead of last year.

### SHARE BUYBACKS

During the first half we purchased for cancellation 6.9% of our shares in issue at an average price of 1665p. We are committed to purchase a further 2.8% in the second half under contingent purchase contracts at an average price of 1617p; the July 2006 balance sheet includes a liability of £113m in respect of these contracts.

### DIVIDEND

The Directors are declaring an interim dividend of 15.5p, an increase of 10.7% over last year. This will be paid on 2 January 2007 to shareholders on the register at 24 November 2006. The shares will trade ex-dividend from 22 November.

# NEXT

## Chief Executive's Review continued

### CURRENT TRADING

The combined sales of NEXT Retail and NEXT Directory for the six week period from 30 July to 9 September were up 10.6% compared to the same period last year:

NEXT Retail sales were up 10.0% in the period. Net sales growth from new space after deducting deflection was 9.7%. Like for like sales in the 292 stores that were unaffected by new openings were up 0.3%.

NEXT Directory sales were up 12.2% in the period.

### OUTLOOK

Whilst current trade has been encouraging it is important not to read too much into such a short period. Sales remain volatile and have been positively affected by the cooler weather. We are currently budgeting NEXT Retail like for like sales in the second half to be down by between -2% and -5% but of course expect total sales to be up due to new store openings. We are budgeting for NEXT Directory product sales to be up by between 7% and 9%.

Simon Wolfson  
Chief Executive

13 September 2006

# NEXT

## Unaudited Consolidated Income Statement

	Six months to July 2006 £m	Six months to July 2005 £m	Year to January 2006 £m
<b>Revenue</b>	<b>1,510.5</b>	<b>1,396.8</b>	<b>3,106.2</b>
<b>Trading profit</b>	<b>191.0</b>	<b>179.6</b>	<b>468.9</b>
Share of results of associates	0.7	1.6	1.8
<b>Operating profit before interest</b>	<b>191.7</b>	<b>181.2</b>	<b>470.7</b>
Finance income	0.7	0.7	1.1
Finance costs	(13.5)	(9.3)	(22.7)
<b>Profit before taxation</b>	<b>178.9</b>	<b>172.6</b>	<b>449.1</b>
Taxation	(54.9)	(52.7)	(135.6)
<b>Profit attributable to equity holders of the parent company</b>	<b>124.0</b>	<b>119.9</b>	<b>313.5</b>
<b>Earnings per share</b> p	<b>53.3</b>	<b>47.9</b>	<b>127.4</b>
<b>Diluted earnings per share</b> p	<b>52.6</b>	<b>47.3</b>	<b>125.9</b>
<b>Dividend per share</b> p	<b>15.5</b>	<b>14.0</b>	<b>44.0</b>

## Unaudited Consolidated Statement of Recognised Income and Expense

	Six months to July 2006 £m	Six months to July 2005 £m	Year to January 2006 £m
<i>Income and expenses recognised directly in equity</i>			
Exchange differences on translation of foreign operations	(2.4)	2.5	2.4
(Losses)/gains on cash flow hedges	(20.3)	21.0	18.5
Actuarial gains/(losses) on defined benefit pension schemes	19.0	2.4	(34.8)
Tax on items recognised directly in equity	0.1	(3.4)	10.4
	<b>(3.6)</b>	<b>22.5</b>	<b>(3.5)</b>
<i>Transfers</i>			
Transferred to income statement on cash flow hedges	(3.9)	5.5	(1.5)
Transferred to the carrying amount of hedged items on cash flow hedges	2.7	(3.3)	(8.6)
<b>Profit for the period</b>	<b>124.0</b>	<b>119.9</b>	<b>313.5</b>
<b>Total recognised income and expense for the period</b>	<b>119.2</b>	<b>144.6</b>	<b>299.9</b>
Opening balance sheet adjustment for adoption of IAS 32 and IAS 39	–	(43.7)	(43.7)

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## Unaudited Consolidated Balance Sheet

	July 2006 £m	July 2005 £m	January 2006 £m
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant & equipment	533.4	473.7	514.1
Intangible assets	36.2	36.2	36.2
Interests in associates	2.2	1.5	1.8
Other investments	1.0	–	1.0
Other financial assets	1.4	4.5	1.4
Deferred tax assets	8.5	17.6	7.8
	<u>582.7</u>	<u>533.5</u>	<u>562.3</u>
<b>Current assets</b>			
Inventories	338.9	326.5	323.9
Trade and other receivables	516.9	448.5	513.8
Other financial assets	0.8	17.1	4.1
Cash and short term deposits	86.9	77.0	69.8
	<u>943.5</u>	<u>869.1</u>	<u>911.6</u>
<b>Total assets</b>	<u>1,526.2</u>	<u>1,402.6</u>	<u>1,473.9</u>
<b>Current liabilities</b>			
Bank overdrafts	(35.5)	(5.9)	(31.4)
Unsecured bank loans	(410.2)	(120.3)	(100.3)
Trade and other payables	(561.4)	(509.1)	(568.8)
Other financial liabilities	(133.4)	(29.8)	(1.8)
Current tax liability	(49.5)	(54.7)	(53.2)
	<u>(1,190.0)</u>	<u>(719.8)</u>	<u>(755.5)</u>
<b>Non-current liabilities</b>			
Corporate bond	(299.0)	(304.6)	(298.1)
Net retirement benefit obligation	(84.9)	(91.0)	(115.6)
Provisions	(9.7)	(10.0)	(10.0)
Other financial liabilities	(3.7)	–	(4.5)
Other liabilities	(34.0)	(30.0)	(34.0)
	<u>(431.3)</u>	<u>(435.6)</u>	<u>(462.2)</u>
<b>Total liabilities</b>	<u>(1,621.3)</u>	<u>(1,155.4)</u>	<u>(1,217.7)</u>
<b>Net (liabilities)/assets</b>	<u>(95.1)</u>	<u>247.2</u>	<u>256.2</u>
<b>EQUITY</b>			
Share capital	22.9	25.7	24.6
Share premium account	0.7	0.7	0.7
Capital redemption reserve	7.0	4.2	5.3
ESOT reserve	(91.5)	(91.1)	(89.3)
Fair value reserve	(18.7)	17.6	2.8
Foreign currency translation	0.5	3.1	3.0
Other reserves	(1,441.8)	(1,441.4)	(1,441.7)
Retained earnings	1,425.8	1,728.4	1,750.8
<b>Total equity</b>	<u>(95.1)</u>	<u>247.2</u>	<u>256.2</u>

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## Unaudited Consolidated Cash Flow Statement

	Six months to July 2006 £m	Six months to July 2005 £m	Year to January 2006 £m
<i>Cash flows from operating activities</i>			
Operating profit before interest	191.7	181.2	470.7
Depreciation	49.0	36.9	81.2
Loss/(profit) on disposal of property, plant and equipment	1.4	(0.6)	(0.2)
Share option charge	4.1	2.9	8.1
Share of undistributed profit of associate companies	(0.4)	—	(0.3)
Exchange movement	(0.8)	(0.2)	(0.5)
Increase in inventories	(15.0)	(24.9)	(22.3)
Increase in trade and other receivables	(3.1)	(12.6)	(76.3)
(Decrease)/increase in trade and other payables	(13.7)	2.1	62.8
Pension contributions less income statement charge	(11.7)	0.8	(11.8)
Cash generated from operations	201.5	185.6	511.4
Corporation taxes paid	(59.0)	(52.5)	(113.2)
<b>Net cash from operating activities</b>	<b>142.5</b>	<b>133.1</b>	<b>398.2</b>
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant and equipment	0.2	8.1	8.4
Acquisition of property, plant and equipment	(70.8)	(93.8)	(177.2)
Purchase of other investments	—	—	(1.0)
<b>Net cash from investing activities</b>	<b>(70.6)</b>	<b>(85.7)</b>	<b>(169.8)</b>
<i>Cash flows from financing activities</i>			
Proceeds from issue of share capital	—	0.1	0.1
Repurchase of own shares	(279.2)	(70.8)	(217.5)
Purchase of own shares by ESOT	(24.8)	(8.0)	(14.9)
Proceeds from disposal of shares by ESOT	16.0	8.9	15.7
Net proceeds of unsecured bank loans	309.9	120.3	100.3
Interest paid	(11.0)	(8.9)	(21.4)
Interest received	0.6	0.9	1.2
Payment of finance lease liabilities	(0.3)	(0.1)	(0.2)
Dividends paid	(69.8)	(70.1)	(103.7)
<b>Net cash from financing activities</b>	<b>(58.6)</b>	<b>(27.7)</b>	<b>(240.4)</b>
Net increase/(decrease) in cash and cash equivalents	13.3	19.7	(12.0)
Opening cash and cash equivalents	38.4	50.0	50.0
Effect of exchange rate fluctuations on cash held	(0.3)	1.4	0.4
<b>Closing cash and cash equivalents (Note 4)</b>	<b>51.4</b>	<b>71.1</b>	<b>38.4</b>

# NEXT

## Notes to the Unaudited Consolidated Interim Financial Statements

### 1. Basis of Preparation

The group's interim results for the six months ended 29 July 2006 were approved by the Board of Directors on 13 September 2006.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those set out in the group's annual financial statements for the year ended 28 January 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.

The 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 2006 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.

### 2. Earnings per Share

The calculation of earnings per share is based on £124.0m (2005: £119.9m) being the profit for the six months after taxation and 232.6m ordinary shares of 10p each (2005: 250.3m), 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 £124.0m (2005: £119.9m) being the profit for the six months after taxation and 235.5m ordinary shares of 10p each (2005: 253.7m) 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 2.9m shares (2005: 3.4m shares).

### 3. Reconciliation of Movements in Total Equity

	Six months to July 2006 £m	Six months to July 2005 £m	Year to January 2006 £m
Opening total equity	256.2	276.5	276.5
Adoption of IAS 32 and 39	–	(43.7)	(43.7)
Opening total equity as restated	256.2	232.8	232.8
Total recognised income and expense	119.2	144.6	299.9
Issue of shares	–	0.1	0.1
Shares purchased for cancellation	(283.5)	(70.8)	(181.1)
Contingent share purchase contracts	(112.8)	7.5	–
Shares purchased by ESOT	(24.8)	(8.0)	(14.9)
Shares issued by ESOT	16.0	8.9	15.7
Share option charge	4.1	2.9	8.1
Equity dividends paid	(69.5)	(70.8)	(104.4)
Closing total equity	(95.1)	247.2	256.2

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## Notes to the Unaudited Consolidated Interim Financial Statements

continued

### 4. Analysis of Net Debt

	January 2006 £m	Cash flow £m	Other non-cash changes £m	July 2006 £m
Cash and short term deposits	69.8			86.9
Overdrafts	(31.4)			(35.5)
Cash and cash equivalents	38.4	13.3	(0.3)	51.4
Unsecured bank loans	(100.3)	(309.9)	—	(410.2)
Corporate bond	(298.1)	—	(0.9)	(299.0)
Finance leases	(2.6)	0.3	—	(2.3)
<b>Total net debt</b>	<b>(362.6)</b>	<b>(296.3)</b>	<b>(1.2)</b>	<b>(660.1)</b>

This statement, the full text of the Stock Exchange announcement and the 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. Forward-looking statements only speak as of the date on which they are made, and the events discussed herein may not occur. NEXT do 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.