



Interim Statement

July 2007

next

# next

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).

Certain statements which appear in a number of places throughout this Interim Management Report may constitute "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 "believe", "estimate", "anticipate", "plan", "intend", "aim", "forecast", "expect", "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 various risks and uncertainties, including but not limited to those matters detailed in the Chief Executive's Review; failure by Next to predict accurately customer fashion preferences; decline in the demand for merchandise offered by Next; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of Next's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of Next to successfully implement relocation or expansion of existing stores; 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. 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 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.

The Risks & Uncertainties described in the Directors' Report and Business Review for the year ended 27 January 2007 remain the principal risks affecting the Group's businesses.

## Chief Executive's Review

### INTRODUCTION

Next increased operating profit in the first half by 11% in a challenging environment. This was achieved by a strong performance in Next Directory and good cost controls, despite a flat result in Next Retail.

Earnings per share have moved forward by more than operating profits as a result of share buybacks and a lower tax rate, they are 22.3% ahead of last year:

	Revenue excluding VAT		Profit and earnings per share		
	Six months to July		Six months to July		
	2007	2006	2007	2006	
	£m	£m	£m	£m	
Next Retail	1,028.7	1,029.7	112.5	111.1	
Next Directory	371.8	359.4	73.8	59.6	
The Next Brand	1,400.5	1,389.1	186.3	170.7	+9.1%
Next International	25.3	22.0	3.4	2.5	
Next Sourcing	2.5	2.9	16.4	15.6	
Ventura	104.6	92.7	11.0	9.7	
Other activities	5.1	3.8	(2.1)	(2.2)	
Share option charge	—	—	(4.3)	(4.1)	
Unrealised exchange gain/(loss)	—	—	2.0	(0.5)	
Revenue and operating profit	1,538.0	1,510.5	212.7	191.7	+11.0%
Interest expense			(14.5)	(12.8)	
Profit before tax			198.2	178.9	+10.8%
Taxation			(56.5)	(54.9)	
Profit after tax			141.7	124.0	+14.3%
Basic earnings per share			65.2p	53.3p	+22.3%

### PROGRESS

At the beginning of the year we set ourselves the objective of improving the Retail like for like sales performance through revitalising the Next Brand. We recognised that this would require significant investment at a time when the retail environment would remain challenging. We aimed to achieve progress whilst continuing to move profits forward. We have achieved the following:

- Started the process of making our ranges more aspirational, significantly improved our marketing and commenced the roll out of a new shop fit.
- Improved like for like sales performance in our mainline stores from –7.2% last year to –3.6% during Spring Summer 2007 in the face of a worsening retail environment. This was within the range we gave in March.
- Despite increased levels of investment in the Brand and negative like for like sales in Retail we have increased the operating profit of the group by 11%. This has been mainly achieved through margin improvement and operational cost savings.
- As a result of our continuing strategy of buying back shares, earnings per share have increased by significantly more than profits. This, together with a reduced tax rate, takes the total EPS growth to +22.3%.

Our financial goal remains the delivery of sustainable long term growth in earnings per share – which we believe to be the engine of long term growth in shareholder value.

## Chief Executive's Review continued

### REVITALISING THE NEXT BRAND

Our aim is to get the magic back into the Next Brand, to re-establish our reputation for great style and good taste. This is mainly about improving our product ranges, but we have also sought to enhance every customer facing aspect of the business: everything from our windows and bags through to our shop fit and website. At the heart of our efforts a simple statement sums up what we feel the Next Brand stands for:



**Exciting**  
beautifully designed  
**excellent quality**  
clothing and homeware that reflects  
the means and aspirations of our customers

The following sections detail some of the progress we have made in the key areas of product, marketing and shop fit.

### PRODUCT

#### Newness

We have worked to make our ranges more forward looking, focusing on the introduction of more new lines more often, and buying into new trends with greater conviction. This requires us to take significant positions without concrete evidence that they will be successful. Whilst this may appear more risky, the alternative is to fall back on last year's best sellers, which only guarantees slow failure – risk success or guarantee failure, that is the choice! In addition to greater conviction we have also increased the proportion of our stock sourced on shorter lead times through buying from sources closer to home or through using faster transport routes.

The table below gives some quantitative measure of the newness achieved within our ranges. It gives the percentage of new Womenswear clothing lines appearing instore for the first time, at two critical points in the season, compared to the same times last year.

	% New lines 2007	% New lines 2006	% Increase in new lines
Phase 1 (August)	76%	60%	+27%
Phase 3 (October)	52%	36%	+44%

#### Emphasis on Quality

Since the beginning of this year we have shifted the emphasis of our ranges away from price starters towards the mid and top end of our price architecture. This is reflected in the change in average selling prices as shown below.

	Autumn Winter 2007 (E)	Spring Summer 2007	Autumn Winter 2006
Average selling price change	+6.2%	-1.6%	-3.1%

It is important to stress that the change in average selling price has not been achieved through increasing the price on like for like garments, nor have we lost any of our entry price points. It has been achieved through increasing the proportion of our ranges at mid price points and introducing new prices at the top end of our ranges. These higher price items are branded "Next Signature" and in Autumn Winter they will account for approximately 3% of our Womenswear buy. We believe we will have the opportunity to expand Signature next year.



## Chief Executive's Review continued

### BRAND MARKETING

Historically Next has not undertaken significant brand marketing activities. We now believe that we have the opportunity to use marketing to reinforce the changes we have made to our product ranges and stores.

We now estimate we will spend £18m more on marketing this year than last year. In addition to press and billboard advertising we will screen two television advertisements, one in September and another in November. Both adverts will be produced to a high specification and the campaign will be of sufficient weight to be highly noticeable. We will also spend £2m on more ambitious window schemes.

### SHOP FIT

Our new shop fit has two objectives; to increase the sales in the refit stores and to enhance the Next Brand through tasteful and exciting interior design. The refit stores continue to show approximately a 5% improvement in their sales performance.

In the course of the season we have introduced a more radical shop fit concept. Whilst we are not budgeting for it to give a better sales uplift than the initial concept, we are convinced that it is a big step forward for the Brand.



Bluewater Park, Kent

In addition to the refit programme we are redecorating and updating the fascia of a significant number of stores. The 'paint and fascia' work will go some way to making the stores that have not had the benefit of a refit sit more comfortably with the new image of the Brand. The table below summarises the square footage that will be new, refitted or redecorated by the end of the current financial year:

	New space	Refit space	Redecorated space	TOTAL
First Half	163,000	231,000	264,000	658,000
Second Half (E)	369,000	386,000	581,000	1,336,000
TOTAL	532,000	617,000	845,000	1,994,000
% of portfolio	10%	12%	16%	38%
Approx cost/sq ft	£143	£60	£4	

## Chief Executive's Review continued

### NEXT RETAIL

#### Retail Sales

Retail sales require some additional explanation. Unusually, there was a significant difference between the performances of Next Mainline and Next Clearance. Mainline sales finished the season up 0.2% with like for like sales down –3.6%, this was within the guidance we gave at the start of the year of –1% to –4% like for like.

Movement in sales:

Net sales from new space	+4.7%
Mainline like for like performance	–3.6%
Impact of Next Clearance	–1.2%
<b>Total Retail sales</b>	<b>–0.1%</b>

The performance of Clearance reflects a significant reduction in the value of Clearance stock, which was on average –25% down. This was due to selling higher levels of Clearance stock throughout the course of 2006 and a large increase in markdowns in the January 2007 Mainline Sale. We expect the performance of Clearance will be closer to Mainline in the Autumn Winter season.

#### New Space

In the first half of the year we opened a net 124,000 square feet of new trading space.

	July 2007	Jan 2007	Half Year Change
Store numbers	488	480	+8
Square feet 000's	4,947	4,823	+124

Net sales from new space are 2.1% ahead of our appraised targets and the forecast payback on net capital invested is 17.3 months. We expect to increase net trading space by just over 420,000 square feet in the full year.

In the first half we opened a stand alone Home store of 16,000 square feet at Thurrock Retail Park. As a result of the initial success of this store and the continued expansion of our Home ranges we will open several more stand alone Home stores. These will generally be in locations where we are unable to obtain planning permission to sell clothing. We expect to open 2 stores in the second half and a further 5 stores next year.

#### Retail Profit

Retail profit increased by 1.3% against last year. Net margins moved forwards slightly from 10.8% to 10.9%. The margin movement is detailed below; the figures show the change as a percentage of sales for each of our major heads of cost:

Net operating margin last year	10.8%
Increase in achieved gross margin	+2.3%
Increase in branch payroll costs	–0.4%
Increase in branch occupancy costs	–1.0%
Increase in central overheads	–0.8%
<b>Net operating margin this year</b>	<b>10.9%</b>

The improvement in gross margin of +2.3% is partly as a result of better sourcing with bought in gross margin improving by +1.4% (this is the difference between what we pay for a garment and its full selling price). In Autumn Winter we expect to continue to improve bought in gross margin but at a lower rate of +0.7%. Again it is important to stress that this improvement will be as a result of improved sourcing and not increased prices. Further improvements came from fabric write offs being lower than expected (+0.4%), and settlement of a VAT issue (+0.4%), neither of these one off gains will be repeated in the second half, or next year. There was no significant change in markdown against last year.

Branch wages increased as a result of the cost of living award. Central overheads increased mainly due to the higher spend on marketing. We are forecasting that Retail margins will be broadly flat for the second half.

## Chief Executive's Review continued

### NEXT DIRECTORY

#### Directory Sales

Directory sales increased by 3.5% in the first half. Improved stock availability and increased service charge income meant that sales rose faster than underlying demand, which was up just 0.9%.

Sales growth was driven by a 0.9% increase in the average number of active customers and a 14.1% increase in pages. The majority of the additional pages went to new and developing product areas.

We will continue to increase the breadth of Home products sold through Next Directory and online. In addition we will also increase the availability of non-Next branded clothing and accessories, where they do not compete directly with our own ranges. One innovation will be the development of a separate "Brand Directory" website which will showcase all the branded product available in the Next Directory, along with some lines which we will only sell through this website.

#### Directory Profit

Directory profit was 23.6% up on last year; a remarkable performance. The profit growth was mainly as a result of improved operating margins; the table below shows the change as a percentage of sales for each of our major heads of cost:

Net operating margin last year	16.6%
Increase in achieved gross margin	+0.6%
Reduction in bad debt	+3.3%
Increase in service charge income	+0.9%
Increase in central overheads	-1.6%
<b>Net operating margin this year</b>	<b>19.8%</b>

Achieved gross margin increased by 0.6%. The bought in gross margin increased by 1.6% and was in line with Retail. This was eroded by -0.7% as a result of increased markdown and -0.3% from increased faulty and damaged stock.

For some time now we have been preparing for a worsening of bad debts in the consumer debt market and one year ago we made significant changes to the credit vetting of new applicants for the Next Directory. In particular we made changes to the ease with which customers could obtain credit on the internet, an area where we had experienced significant fraud. The effects of these changes began to be felt in January 2007 and we have seen a very significant drop in fraudulent bad debt and other defaults. This increased the net operating margins of the business by +3.3%. At the same time, service charge income rose faster than sales adding +0.9% to margin.

Virtually all the increase in central overheads is as a result of increased marketing spend. Cost increases in catalogue production (-0.8%) and systems (-0.2%) were offset by savings in warehousing and distribution (+1.1%).

In the second half we do not expect to make the same level of improvement in bad debt. Also the warehousing and distribution savings will annualise, so we are not forecasting for any further improvement in this area as the season progresses. We are therefore expecting Directory net operating margins in the second half to be broadly in line with last year.

#### Outlook for Directory

We are very cautious in our outlook for the Directory for the rest of this year. There are a number of factors which we believe will hold growth in sales back in the season ahead:

- Increased competition on the internet from existing high street retailers who are increasing their presence online.
- Economic pressure on consumers to reduce their spending on credit.
- Imposition of the tighter credit status requirements referred to above limiting the number of new customers we take into the Directory.
- Implementation of increased levels of credit control whereby we have reduced the credit available to certain sections of our customer base.

We believe that the right way to manage the Directory through this part of the cycle is to adopt the tactics we deployed in a similar situation in 1999. We will therefore not be tempted to buy sales through taking on unprofitable customers.

## Chief Executive's Review continued

### NEXT INTERNATIONAL

Sales to our international franchise partners grew by 15% to £25m. Our partners' own sales rose by 25% to approximately £57m. Last year sales to our partners were growing faster than profits due to the difference between product shipments and partner sales. This has now corrected and profits grew 34% to £3.4m.

Our partners opened 13 additional stores in the period, making 142 in total. Our largest region remains the Middle East in terms of store numbers and sales, although Europe is growing strongly. Stores were opened in five new countries; China, Jordan, Pakistan, Poland and Ukraine. We anticipate that a further 14 stores will be open by January 2008. The estimated expansion programme is set out in the table below.

	January 2009 (E)	January 2008 (E)	July 2007	January 2007
<b>Existing Territories</b>				
Middle East	63	55	54	52
Far East (inc Japan)	37	37	37	38
Russia	20	15	14	13
Czech / Slovakia / Hungary	14	11	11	9
Turkey	7	7	5	5
Rest of Europe	12	11	10	10
India	9	7	3	2
<b>New Territories</b>				
Ukraine / Poland / Romania	9	6	5	—
China / Hong Kong	6	2	1	—
Greece / Netherlands / Sweden	4	—	—	—
Macau / Malaysia / Taiwan	3	1	—	—
Jordan / Egypt	2	2	1	—
Pakistan	2	2	1	—
<b>New Stores</b>	<b>32</b>	<b>14</b>	<b>13</b>	<b>—</b>
<b>Total Stores</b>	<b>188</b>	<b>156</b>	<b>142</b>	<b>129</b>

International sales have now grown to become a meaningful part of the business and we are forecasting that sales by our partners will be in excess of £120m this year. We are looking for ways in which to further improve the pace of growth and profitability of this operation.

### NEXT SOURCING

Total Next Sourcing sales reduced by 8% to £283m, while profits increased to £16.4m. The sales reduction is attributable to currency conversion from the weaker Dollar into Sterling, in Dollar terms sales were 0.5% ahead. These results are in line with our previous comment that lower stock levels in Retail and Directory would result in lower Next Sourcing sales. Action has been taken on costs and we expect that the full year profit will be in the region of £34m.

In addition to existing overseas operations we have added a sourcing office in northern India to complement that of southern India, which we opened last year.

### VENTURA

Ventura performed well in the first half with both turnover and profit increasing by 13%, to £104m and £11m respectively. We continue to broaden the client portfolio and have added two more major clients. We expect Ventura to make further progress in the second half and for full year profits to be in the region of £23m.

Ventura now operates six call centres in the UK and one in India, employing in total over 10,000 people. It has begun marketing warehouse and distribution services to third parties, which will utilise available capacity in our Retail and Directory network. Discussions are in progress with a number of prospective clients for services to commence in 2008.



## Chief Executive's Review continued

### OTHER ACTIVITIES

The Other Activities charge of £2.1m includes Central Costs of £4.8m, profits from our Property Management Division of £2.2m and associated company profits of £0.5m.

Central Costs include an additional pension charge of £0.5m compared with £2.8m last year. The second half last year included a £2m credit (making a full year charge of £0.8m) whereas this year we expect a second half charge of £0.5m (making £1m for the full year).

### INTEREST, TAXATION AND EARNINGS PER SHARE

The interest charge increased to £14.5m as a consequence of share buybacks and we expect a second half charge of not less than £22m. The expected tax rate for the year has reduced to 28.5% following resolution of prior year issues and we envisage a similar rate for the following year. Share buybacks and the lower tax rate both contribute to the increase in earnings per share of 22.3%.

### BALANCE SHEET AND CASH FLOW

At the end of July net borrowings were £618m, financed by £550m of bonds which mature in 2013 and 2016, together with £450m of medium term bank facilities.

The cash inflow for the period was £71m before a £245m outflow in respect of shares purchased and cancelled.

Capital expenditure was £90m and we anticipate that the full year spend will be approximately £180m, including £114m on retail stores. Opening stock levels for the Autumn season were 9% below those of last year. Creditors include £50m for share buybacks made before the period end which were paid for after the period end.

### SHARE BUYBACKS

During the period we purchased for cancellation 6.2% of our shares for £295m at an average price of 2101p including costs. Since then we have purchased, or remain committed to purchase, a further 2.0% for £93m at an average price of 2049p.

### DIVIDEND

The Directors are declaring an interim dividend of 18p, an increase of 16.1% over last year. This will be paid on 2 January 2008 to shareholders on the register at 30 November 2007. The shares will trade ex-dividend from 28 November.

### CURRENT TRADING

The combined sales of Next Retail and Next Directory for the six week period from 29 July to 8 September 2007 were down –2.9% compared to the same period last year.

Next Retail sales were down –2.9% in the period. Mainline like for like sales in the 310 stores that were unaffected by new openings were down –4.8%.

Next Directory sales were –2.9% down in the period.

These figures need to be treated with some caution. Our Summer Sale finished earlier this year and the first six weeks sales last year were unusually strong, and significantly better than the subsequent twenty weeks.

### OUTLOOK FOR THE AUTUMN WINTER SEASON

We remain cautious about the outlook for the UK consumer and are acutely aware that the full effect of recent interest rate rises has not yet filtered through to our customers.

However, we are also satisfied that we have made significant improvements to our ranges, marketing and stores. We are therefore budgeting for the Retail like for like sales performance to improve in the second half and fall within a range of –3.5% to –1%. We are budgeting for Directory second half sales to be between –2% and +2% on last year.

Our full year internal profit forecasts for the group, based on these sales ranges, are in-line with market expectations at this time.

We intend to issue an Interim Management Statement on 7 November 2007 which will contain a further update on sales.

Simon Wolfson  
Chief Executive

11 September 2007

## Unaudited Consolidated Income Statement

	Six months to July 2007 £m	Six months to July 2006 £m	Year to January 2007 £m
<b>Revenue</b>	<b>1,538.0</b>	<b>1,510.5</b>	<b>3,283.8</b>
<b>Trading profit</b>	<b>212.2</b>	<b>191.0</b>	<b>506.1</b>
Share of results of associates	0.5	0.7	1.4
<b>Operating profit</b>	<b>212.7</b>	<b>191.7</b>	<b>507.5</b>
Finance income	3.4	0.7	4.0
Finance costs	(17.9)	(13.5)	(33.1)
<b>Profit before taxation</b>	<b>198.2</b>	<b>178.9</b>	<b>478.4</b>
Taxation	(56.5)	(54.9)	(146.9)
<b>Profit attributable to equity holders of the parent company</b>	<b>141.7</b>	<b>124.0</b>	<b>331.5</b>
<b>Basic earnings per share</b> p	<b>65.2</b>	<b>53.3</b>	<b>146.1</b>
<b>Diluted earnings per share</b> p	<b>64.3</b>	<b>52.6</b>	<b>144.3</b>
<b>Dividend per share</b> p	<b>18.0</b>	<b>15.5</b>	<b>49.0</b>

## Unaudited Consolidated Statement of Recognised Income and Expense

	Six months to July 2007 £m	Six months to July 2006 £m	Year to January 2007 £m
<i>Income and expenses recognised directly in equity</i>			
Exchange differences on translation of foreign operations	(0.4)	(2.4)	(1.0)
Losses on cash flow hedges	(9.1)	(20.3)	(34.7)
Hedging adjustment	—	—	2.3
Actuarial gains on defined benefit pension schemes	19.5	19.0	32.5
Tax on items recognised directly in equity	(8.1)	0.1	(0.9)
	<b>1.9</b>	<b>(3.6)</b>	<b>(1.8)</b>
<i>Transfers</i>			
Transferred to income statement on cash flow hedges	14.6	(3.9)	6.2
Transferred to the carrying amount of hedged items on cash flow hedges	6.6	2.7	5.8
Net income/(expense) recognised directly in equity	<b>23.1</b>	<b>(4.8)</b>	<b>10.2</b>
<b>Profit for the period</b>	<b>141.7</b>	<b>124.0</b>	<b>331.5</b>
<b>Total recognised income and expense for the period</b>	<b>164.8</b>	<b>119.2</b>	<b>341.7</b>

## Unaudited Consolidated Balance Sheet

	July 2007 £m	July 2006 £m	January 2007 £m
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant & equipment	581.3	533.4	544.4
Intangible assets	36.2	36.2	36.2
Interests in associates	2.2	2.2	2.2
Other investments	1.0	1.0	1.0
Other financial assets	1.7	1.4	2.2
Deferred tax assets	–	8.5	2.6
	<u>622.4</u>	<u>582.7</u>	<u>588.6</u>
<b>Current assets</b>			
Inventories	307.8	338.9	281.8
Trade and other receivables	558.0	516.9	577.7
Other financial assets	1.5	0.8	1.2
Cash and short term deposits	70.1	86.9	121.7
	<u>937.4</u>	<u>943.5</u>	<u>982.4</u>
<b>Total assets</b>	<u>1,559.8</u>	<u>1,526.2</u>	<u>1,571.0</u>
<b>Current liabilities</b>			
Bank overdrafts	(15.3)	(35.5)	(12.5)
Unsecured bank loans	(120.0)	(410.2)	(0.1)
Trade and other payables	(687.8)	(561.4)	(621.1)
Other financial liabilities	(103.1)	(133.4)	(23.6)
Current tax liability	(85.8)	(49.5)	(81.2)
	<u>(1,012.0)</u>	<u>(1,190.0)</u>	<u>(738.5)</u>
<b>Non-current liabilities</b>			
Corporate bonds	(532.3)	(299.0)	(531.2)
Net retirement benefit obligation	(28.1)	(84.9)	(47.0)
Provisions	(9.5)	(9.7)	(9.5)
Other financial liabilities	(18.0)	(3.7)	(19.2)
Deferred tax liabilities	(10.0)	–	–
Other liabilities	(36.9)	(34.0)	(36.3)
	<u>(634.8)</u>	<u>(431.3)</u>	<u>(643.2)</u>
<b>Total liabilities</b>	<u>(1,646.8)</u>	<u>(1,621.3)</u>	<u>(1,381.7)</u>
<b>Net (liabilities)/assets</b>	<u>(87.0)</u>	<u>(95.1)</u>	<u>189.3</u>
<b>EQUITY</b>			
Share capital	21.3	22.9	22.7
Share premium account	0.7	0.7	0.7
Capital redemption reserve	8.6	7.0	7.2
ESOT reserve	(62.1)	(91.5)	(76.9)
Fair value reserve	(7.8)	(18.7)	(19.9)
Foreign currency translation	1.6	0.5	2.0
Other reserves	(1,443.8)	(1,441.8)	(1,443.7)
Retained earnings	1,394.5	1,425.8	1,697.2
<b>Total equity</b>	<u>(87.0)</u>	<u>(95.1)</u>	<u>189.3</u>

## Unaudited Consolidated Cash Flow Statement

	Six months to July 2007 £m	Six months to July 2006 £m	Year to January 2007 £m
<i>Cash flows from operating activities</i>			
Operating profit before interest	212.7	191.7	507.5
Depreciation	51.2	49.0	102.3
Loss on disposal of property, plant & equipment	1.6	1.4	2.9
Share option charge	4.3	4.1	8.3
Share of undistributed profit of associates	—	(0.4)	(0.4)
Exchange movement	(2.1)	(0.8)	2.6
(Increase)/decrease in inventories	(26.0)	(15.0)	42.1
Decrease/(increase) in trade and other receivables	19.6	(3.1)	(63.7)
Increase/(decrease) in trade and other payables	9.9	(13.7)	49.5
Pension contributions less income statement charge	0.6	(11.7)	(36.1)
Cash generated from operations	271.8	201.5	615.0
Corporation taxes paid	(47.2)	(59.0)	(114.2)
<b>Net cash from operating activities</b>	<b>224.6</b>	<b>142.5</b>	<b>500.8</b>
<i>Cash flows from investing activities</i>			
Proceeds from sale of property, plant & equipment	0.1	0.2	3.4
Acquisition of property, plant & equipment	(89.7)	(70.8)	(139.9)
<b>Net cash from investing activities</b>	<b>(89.6)</b>	<b>(70.6)</b>	<b>(136.5)</b>
<i>Cash flows from financing activities</i>			
Repurchase of own shares	(245.1)	(279.2)	(316.3)
Purchase of own shares by ESOT	—	(24.8)	(24.8)
Proceeds from disposal of shares by ESOT	16.1	16.0	27.8
Proceeds from issue of corporate bond	—	—	250.0
Proceeds/(repayment) of unsecured bank loans	119.9	309.9	(100.2)
Interest paid	(9.4)	(11.0)	(28.6)
Interest received	3.5	0.6	3.8
Payment of finance lease liabilities	(0.3)	(0.3)	(0.5)
Dividends paid	(73.5)	(69.8)	(103.9)
<b>Net cash from financing activities</b>	<b>(188.8)</b>	<b>(58.6)</b>	<b>(292.7)</b>
Net (decrease)/increase in cash and cash equivalents	(53.8)	13.3	71.6
Opening cash and cash equivalents	109.2	38.4	38.4
Effect of exchange rate fluctuations on cash held	(0.6)	(0.3)	(0.8)
<b>Closing cash and cash equivalents (Note 6)</b>	<b>54.8</b>	<b>51.4</b>	<b>109.2</b>

## Notes to the Unaudited Consolidated Interim Financial Statements

### 1. Basis of preparation

The Group's interim results for the six months ended 28 July 2007 were approved by the Board of Directors on 11 September 2007, and have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

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 year ended 27 January 2007. 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 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 for the year to January 2007 does not represent statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for that period incorporating an unqualified audit report have been delivered to the Registrar of Companies.

#### *Changes in accounting policy*

In the current financial year, the Group will adopt IFRS 7 *Financial Instruments: Disclosures* and the amendment to IAS 1 *Presentation of Financial Statements* for the first time. As these are disclosure standards, there is no impact on the interim financial statements.

### 2. Risks & uncertainties

The principal risks and uncertainties affecting the business activities of the Group remain those detailed on pages 11 and 12 of the January 2007 Report & Accounts, a copy of which is available on the Company's website at [www.next.co.uk](http://www.next.co.uk). The Chief Executive's Review in this Interim Management Report includes a commentary on the primary uncertainties affecting the Group's businesses for the remaining six months of the financial year.

### 3. Segmental analysis

For management purposes the Group comprises a number of divisions, the activities and results of which are detailed in the Chief Executive's Review. These divisions comprise the business segments which form the Group's primary format for segmental reporting. An analysis of segment revenues is given below:

	External revenue		Internal revenue		Total revenue	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Six months to July						
Next Retail	1,028.7	1,029.7	—	—	1,028.7	1,029.7
Next Directory	371.8	359.4	—	—	371.8	359.4
Next Brand	1,400.5	1,389.1	—	—	1,400.5	1,389.1
Next International	25.3	22.0	—	—	25.3	22.0
Next Sourcing	2.5	2.9	280.4	305.0	282.9	307.9
Ventura	104.6	92.7	3.4	3.0	108.0	95.7
Other	5.1	3.8	78.9	73.1	84.0	76.9
Eliminations	—	—	(362.7)	(381.1)	(362.7)	(381.1)
	<u>1,538.0</u>	<u>1,510.5</u>	<u>—</u>	<u>—</u>	<u>1,538.0</u>	<u>1,510.5</u>

### 4. Earnings per share

The calculation of basic earnings per share is based on £141.7m (2006: £124.0m) being the profit for the six months after taxation and 217.3m ordinary shares of 10p each (2006: 232.6m), being 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 based on £141.7m (2006: £124.0m) being the profit for the six months after taxation and 220.4m ordinary shares of 10p each (2006: 235.5m) 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 3.1m shares (2006: 2.9m shares).



## Notes to the Unaudited Consolidated Interim Financial Statements continued

### 5. Reconciliation of movements in total equity

	Six months to July 2007 £m	Six months to July 2006 £m	Year to January 2007 £m
Opening total equity	189.3	256.2	256.2
Total recognised income and expense	164.8	119.2	341.7
Shares purchased for cancellation	(294.7)	(283.5)	(316.3)
Share purchase contracts	(93.4)	(112.8)	–
Shares purchased by ESOT	–	(24.8)	(24.8)
Shares disposed of by ESOT	16.1	16.0	27.8
Share option charge	4.3	4.1	8.3
Equity dividends paid	(73.4)	(69.5)	(103.6)
<b>Closing total equity</b>	<b>(87.0)</b>	<b>(95.1)</b>	<b>189.3</b>

During the six months to July 2007 the Company purchased for cancellation 12,623,718 (2006: 14,746,199) of its own ordinary shares of 10p each in the open market at a cost of £263.9m (2006: £246.3m). The Company also purchased for cancellation 1,400,000 (2006: 2,275,000) of its own ordinary shares of 10p each under off-market contingent purchase contracts at a cost of £30.8m (2006: £37.2m).

### 6. Analysis of net debt

	January 2007 £m	Cash flow £m	Other non-cash changes £m	July 2007 £m
Cash and short term deposits	121.7			70.1
Overdrafts	(12.5)			(15.3)
Cash and cash equivalents	109.2	(53.8)	(0.6)	54.8
Unsecured bank loans	(0.1)	(119.9)	–	(120.0)
Corporate bonds	(531.2)	–	(1.1)	(532.3)
Fair value hedges of corporate bond	(19.4)	–	1.3	(18.1)
Finance leases	(2.3)	0.3	(0.1)	(2.1)
<b>Total net debt</b>	<b>(443.8)</b>	<b>(173.4)</b>	<b>(0.5)</b>	<b>(617.7)</b>

## 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;
- 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

**Simon Wolfson**  
Chief Executive

**David Keens**  
Group Finance Director

11 September 2007



Interim Statement | July 2007