Interim Statement
July 2010

next

Next has delivered a robust set of results in trading conditions that remain testing. Group sales for the first half were up 5%. Costs and margins have been managed carefully and as a result profits in the first half grew by more than sales, up 15% on last year. Earnings per share (our key measure of financial success) have been enhanced through cash generation and share buybacks, resulting in EPS growth of 24%. We have increased the Interim dividend by 6p to 25p. Financial highlights are as follows:

- Group revenues increased 5% to £1,587m
- Group profit before tax increased 15% to £213m
- Earnings per share rose 24% to 84.5p
- Cash inflow of £63m, before share buyback outflows of £157m
- Net debt of £494m and ample debt facilities of £800m
- Interim dividend increased by 6p to 25p

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HEADLINES

- Sales up 5%
- Profit up 15%
- Earnings per share up 24%
- Dividend up 6p to 25p

PROGRESS: SALES, PROFIT AND EARNINGS PER SHARE

Next has delivered a robust set of results in trading conditions that remain testing. Group sales were up 5%. The continued addition of profitable new space in Next Retail and an excellent performance from the Next Directory more than compensated for retail like for like sales, which were just below the midpoint of our guidance.

Costs and margins have been managed carefully and as a result profit in the first half grew by more than sales, up 15% on last year. Earnings per share (our key measure of financial success) have been enhanced through cash generation and share buybacks, resulting in EPS growth of 24%. We have increased the Interim dividend, by 6p to 25p.

	Revenue excluding VAT Six months to July		**Profit and earnings per share Six months to July**		
	2010	2009	**2010**	2009	
	£m	£m	**£m**	£m	
Next Retail	**1,026.2**	1,004.3	**122.9**	112.3	
Next Directory	**422.8**	386.2	**101.3**	83.3	
Next International	**30.8**	30.0	**2.3**	3.1	
Next Sourcing	**1.7**	1.9	**12.5**	16.2	
Next Brand	**1,481.5**	1,422.4	**239.0**	214.9	**+11%**
Ventura	**75.5**	72.2	**3.1**	2.1	
Other activities	**30.2**	17.7	**(4.6)**	(4.9)	
Share option charge	**–**	–	**(5.5)**	(3.0)	
Unrealised exchange loss	**–**	–	**(6.3)**	(9.6)	
Revenue and operating profit	**1,587.2**	1,512.3	**225.7**	199.5	**+13%**
Interest expense			**(12.4)**	(14.0)	
Profit before tax			**213.3**	185.5	**+15%**
Taxation			**(58.4)**	(53.8)	
Profit after tax			**154.9**	131.7	**+18%**
Basic earnings per share			**84.5p**	68.2p	**+24%**
Interim dividend per share			**25.0p**	19.0p	**+32%**

PRODUCT

We remain confident that all our ranges reflect the latest trends and remain good value for money. In particular we have been encouraged by the development of our ranges for Children and Home, which now account for around 40% of Next Brand sales.

We are more confident than we have been for some time with the fashion content of our Womenswear ranges, and believe that most of the key trends are well represented. Going forward, there is more we can do to maximise the potential of best selling lines, with more colourways and greater depth of buy on these items.

RETAIL

Retail Sales

Retail VAT exclusive sales in the first half were up 2.2% on last year. Last year was a 53 week year and as a result the first half started one week later than last year. This timing difference added 0.9% to our underlying sales growth.

As set out in our previous trading statement, like for like sales for the first half were -1.5% (against the directly comparable period last year). Like for like sales have become a little confusing as a measure of performance. Ours would be enhanced by more than 3% if, as is the case with many retailers, they included direct sales. In addition, the increase in VAT means that our reported like for like sales are around 1.4% less than the amount customers actually spent in our stores.

New Space and Refits

The following table sets out the increase in the number of stores and the square feet of trading space added in the half year.

	Stores	Square feet	% of new space
January 2010	**517**	**5,763,000**	
New Mainline	3	22,000	18%
New Home stand alone	5	63,000	52%
Re-sites (3) and extensions (21)	0	47,000	39%
Closed	-3	-11,000	-9%
First half additions	5	121,000	
July 2010	**522**	**5,884,000**	**+2.1%**

The emphasis of our space expansion programme has moved away from opening mainline stores (with all products) in new locations. Instead we have focused on extending or moving within existing trading locations and opening new Home stand alone stores. We expect this trend to continue for at least two years. In many of the locations in which we are extending stores we are taking the opportunity to add new products such as sportswear and dedicated shoe shop-in-shops. In the first half we added 18 Sportswear departments and 38 "Shoe Rooms".

Our investment in profitable new space continues to be successful. New mainline space opened in the first half is running in line with forecast sales. Payback on net capital invested in new space is comfortably ahead of our 24 month requirement and forecast at 17 months. The branch profitability of new stores is expected to be 19%. The new Home stores have significantly outperformed our expectations, with sales 31% ahead of plan, net payback at 15 months and branch profitability of 20% is forecast. We plan to open seven new Home stores in the second half.

We have continued our programme of refitting older stores and anticipate spending around £20m on cosmetic refits in the current year, compared to £26m last year. We believe that we will need to spend a similar amount each year on our existing portfolio and this should be regarded as maintenance capex. In stores which are at or near the end of their lease we often negotiate a capital contribution or rent free period in exchange for renewing the lease.

This year we anticipate adding circa 336,000 square feet of trading space.

Retail Profit

Retail profit increased by 9.4% in the half year and operating margin increased by 0.8%. 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		**11.2%**
Increase in bought in gross margin	+0.7%	
Increase in markdown	-0.3%	
Increase in achieved gross margin		**+0.4%**
Increase in branch occupancy costs		-0.1%
No change in store payroll		0.0%
No change in warehousing & distribution costs		0.0%
Decrease in other central overheads		+0.5%
Net operating margin this year		**12.0%**

We increased the **bought in gross margin** by 0.7% in order to mitigate the effects of the January 2010 VAT increase. Therefore, margin as a percentage of VAT *inclusive* sales was maintained. **Markdown** increased as more stock went into the end of season Sale. This was the result of returning to more normal levels of markdown after last year's exceptionally low figure.

Branch occupancy costs rose slightly as a percentage of sales due to some increases in rent and rates combined with negative like for likes. For stores that had a rent review, the majority of which were five yearly reviews, the average annual increase in rent was 2.4%. **Store payroll, warehousing** and **distribution** were all managed so that any inflationary cost rises were offset by efficiency gains, and were broadly margin neutral.

Central overheads reduced as a percentage of sales mainly as a result of last year's costs being increased by unusually high performance based staff incentives.

Outlook for Retail Margins

We are forecasting that Retail operating margins in the full year will follow the pattern set in the first half. We anticipate a similar rise of up to 1%, driven by an increase in achieved gross margin and a decrease in central overheads.

NEXT DIRECTORY

Directory Sales

Directory continues to perform extremely well, with sales up by 9.5%, a good performance albeit one that was flattered by around 1.7% as a result of the one week later start to the year. Orders placed through the internet account for over 70% of Directory sales.

Growth has been mainly driven by an increase in active customers, up by 11.2% and standing at 2,650,000 as at July 2010. The vast majority of new customers were recruited online.

One source of new recruits has been customers who pay at the point of order, using a credit or debit card, rather than buying on account from Next. In the past these customers, who either did not want a Next credit account or failed to qualify for an account, were unable to trade online. We have changed our website to accept cash only customers and now have 210,000 customers without a Next credit facility. This compares to 130,000 last year, an increase of 61%. This is good news for customer numbers and sales; it reduces our exposure to bad debt but will result in less service charge income as a percentage of sales (see profit analysis below).

We have made good progress in the look, feel and functionality of our website and aim to continue to improve the website and the service we offer as the year progresses. For example, we have made excellent progress in extending the latest time at which customers can order for next-day delivery. Two years ago it was 5.00 p.m., today it is 7.00 p.m. and from October most customers will be able to order stock up to 9.00 p.m. for delivery the following day.

Directory Profit

Directory profit was up 21.5% on last year. 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		**21.6%**
Increase in bought in gross margin	+1.3%	
Increase in markdown	-0.1%	
Increase in achieved gross margin		**+1.2%**
Decrease in bad debt		+0.2%
Decrease in service charge income		-0.8%
Decrease in warehouse and distribution costs		+1.0%
Decrease in marketing and book creation costs		+0.4%
No change in call centre costs		0.0%
Decrease in other central overheads		+0.4%
Net operating margin this year		**24.0%**

The **bought in gross margin** increased by 1.3%. The unusually large discrepancy between the growth in Retail and Directory gross margin is down to a change in product mix. In comparison to Retail, Directory sales of higher margin product categories grew faster than lower margin categories.

Markdown was broadly neutral, with higher quantities of Sale stock being mitigated by an improvement in the profitability of Directory Sale operations.

Bad debt continues to fall as a percentage of sales, we transferred circa £5m less debt to third party collection agencies in the first half than in the same period last year. The reduction in bad debt is a reflection of the improvements we have made to our credit controls and, we believe, consumers taking a more careful approach to credit. Service charge income reduced as a percentage of sales due to customers paying down their balances faster and the increase in the number of customers who do not use our credit facility.

Warehouse and distribution costs reduced as a percentage of sales, improving margin by 1%. This was driven by contribution to overheads from third party client business, lower costs per parcel and more customers collecting their parcels from our stores. Deliveries to store are free, but despite this delivery charge revenue increased because customers are now ordering more frequently.

Marketing expenditure has been carefully focused on the most profitable recruitment methods and as a result we improved margin by 0.5%. This achievement is particularly impressive given the increase in customer numbers. Production of the **Next Directory** is priced in Euros and margin reduced by 0.6% due to a weaker exchange rate. This was broadly offset by cost saving initiatives in book creation and more targeted distribution to potential new customers, which reduced the number of books printed.

Central overheads reduced as a percentage of sales mainly as a result of last year's costs being increased by unusually high performance based staff incentives.

Outlook for Directory Margins

We are forecasting that Directory operating margins will rise by around 3% for the full year, driven by similar improvements to those seen in the first half.

INTERNATIONAL

Like for like sales declines in our International stores were less than last year. However, they are still down -5.8% (-7% last year) at our franchise partners and -5.5% (-14% last year) in our wholly owned stores in Central Europe and Scandinavia. The impact of the credit crunch was deeper in some of our overseas stores and they have taken longer to recover.

Franchise sales are reported as cost plus margin so we show below gross sales (i.e. retail sales to customers) to give a feel for the scale of the business.

	July 2010 £m	July 2009 £m	% Change
Gross franchise retail sales	**65.6**	67.2	-2.4%
Sales in wholly owned stores	**7.8**	6.7	+15.2%
Total gross retail sales	**73.3**	**73.9**	**-0.8%**

First half International profits were down on last year mainly due to a £0.5m asset write off. We expect full year International profits to be in the region of £6m against £1.2m last year net of impairments.

We continue to move the focus of our international ambitions towards the internet and are now trading successfully online in 37 countries. Overseas sales on the internet (excluding Eire) have grown 250% but were still small at just £2.3m. Operating margins are healthy and are currently in the region of 20%. Sales and profits are included in Next Directory but we will consider transferring them to International at the end of the year, when we will provide more details on progress.

NEXT SOURCING

Next Sourcing, our wholly owned sourcing company, delivered profit for the period of £12.5m against £16.2m last year. As previously reported, lower Dollar prices resulted in lower commission income. In addition, stronger competition for Next's business from third party suppliers put pressure on margins. Sales in Dollar terms to Next were down 12% from $380m to $337m. Overheads remained under tight control and we achieved a further reduction in absolute terms.

NSL is a significant benefit to the Group and, although wholly owned, competes on an equal footing with our other suppliers. In response to a very competitive manufacturing market NSL has lowered its commission rate to Next. As a result, profits will be lower this year and we still expect a full year contribution of circa £30m.

VENTURA

Ventura had a positive start to the year, with first half sales of £76m up 5% on last year. We commenced services for three new clients in the period, which broadens further our contracted client base.

The increase in sales coupled with continued focus on costs delivered an increase in profit to £3.1m, which was ahead of our expectations. The second half has started well and we continue to expect growth in both sales and profit, our full year profit forecast is £7m.

LIPSY

Lipsy, our young female fashion brand, made a trading profit of £1.1m before amortisation and deferred performance charges of £0.8m, on sales of £19m. In the current year we expect to open 16 new stores, making 29 in total, and anticipate trading profits of circa £3m. Amortisation will continue and performance costs will be provided over the five years to January 2014.

OTHER ACTIVITIES

Other Activities includes profits from our Property Management division and associated companies, together with central costs.

We expect the share option charge of £5.5m to be only slightly higher in the second half, whereas the two halves were very different last year as one option grant unexpectedly vested as profit estimates rose. The £6.3m unrealised foreign exchange loss is an accounting charge on revaluing foreign exchange instruments and we expect much of this to reverse in the second half.

INTEREST AND TAXATION

Net interest expense reduced to £12.4m as a consequence of lower average debt and continued low interest rates. We anticipate a similar charge in the second half. The expected tax rate for the full year is 27.4%, slightly below last year's rate.

BALANCE SHEET AND CASH FLOW

Stock at the end of July was 4% down on last year. This decrease was partly due to later stock intake for the Autumn Winter season and the fact that the total cost of stock has fallen slightly as a result of the higher gross margin. Directory debtors increased by 6% on last year, which was less than the growth in Directory sales. Capital expenditure was £69m and is now expected to be £140m for the year, the increase on previous forecasts being primarily additional Home stand alone stores that will be opening at the end of this year or first quarter next year.

Cash flow from operations was again strong and the Group generated £63m of cash after interest, tax and dividends but before share buybacks. The majority of our full year cash flow occurs in the second half and we expect the full year inflow before buybacks will be in the region of £175m.

Net debt of £494m at the end of July was financed by the £504m of outstanding 2013 and 2016 bonds, supported by a £295m medium term committed bank facility. We anticipate that net debt will peak later this year around £650m and without further share buybacks will end the year around £425m.

SHARE BUYBACKS

We have continued to buyback shares with surplus capital generated from operations, the shares purchased and cancelled in the year to date are as follows:

	Shares (m)	Cost (£m)	Average price
February–March	3.6	70	£19.39
April–July	3.1	68	£21.93
August–September	1.1	22	£19.94
Total	**7.8**	**160**	**£20.47**

These shares, together with those purchased in January 2010, will enhance earnings per share this year by 5%. Returning surplus capital to shareholders in this way provides growth in EPS without increasing the operational risks to the business.

DIVIDEND

We confirm our expectation that this year's total dividend will rise by at least 10% above last year's 66p. The Interim dividend will receive the greater part of the full year increase and we are pleased to announce a rise of 6p to 25p. This will be paid on 4 January 2011 to shareholders on the register at 26 November 2010. The shares will trade ex-dividend from 24 November 2010.

INTERIM MANAGEMENT STATEMENT

Our next statement will cover the third quarter and is provisionally scheduled for 3 November 2010.

OUTLOOK FOR SALES AND PROFITS: YEAR TO JANUARY 2011

Our internal sales and profit forecasts remain the same as given in our Trading Statement on 4 August. We expect full year Next Brand sales to be in the range 0% to 2% ahead of last year; however, last year was a 53 week year. The equivalent 52 week comparison would be 1.5% to 3.5% ahead of last year. Assuming we fall within this sales range, we believe profits before tax will be in the range £535m to £560m. This would represent PBT growth of between 6% and 11%. As a result of the lower tax rate and share buybacks to date, growth in earnings per share is forecast to be 7% ahead of growth in PBT and in the range 13% to 18%.

OUTLOOK FOR 2011 PRICES

For 2011 we are experiencing significant product cost price pressure from around the world. The price of cotton has increased by 45% since this time last year, which is pushing up fabric prices. In addition, we are beginning to experience wage cost inflation in some overseas territories. Manufacturing capacity is also an issue in the territories where factories were closed at the height of the credit crunch.

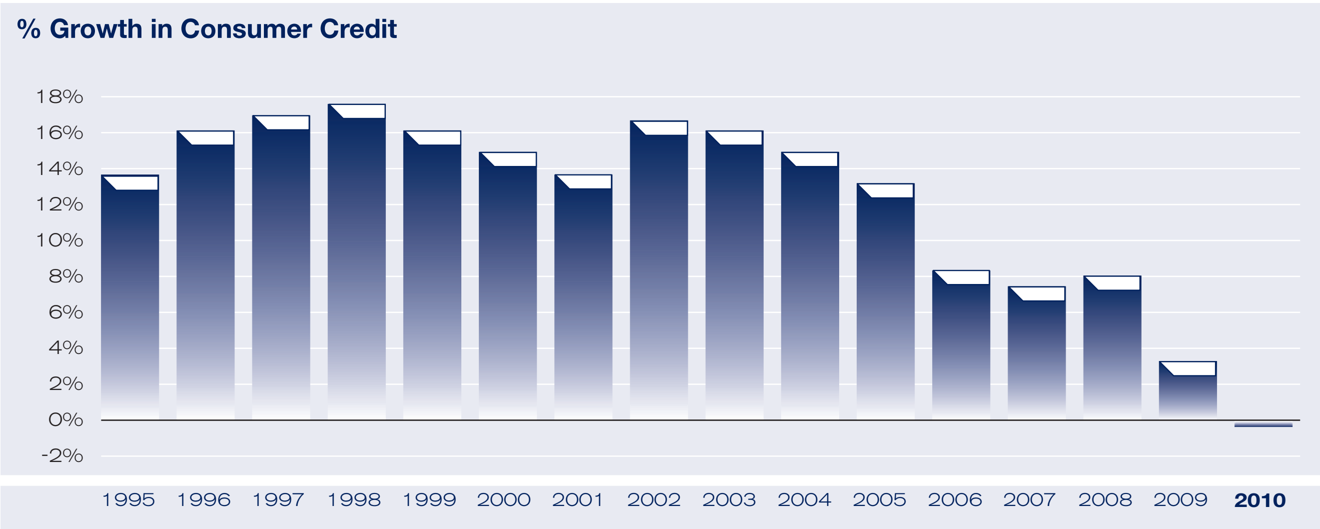
Input costs combined with the impending rise in VAT will make price rises inevitable in the Spring of next year. We will be able to mitigate some pricing pressure through alternative sourcing, robust negotiation and some product engineering. We believe that selling prices of like for like product will rise in the region of 5% to 8%. Price rises are likely to moderate demand to some extent, but we think the effect is unlikely to be dramatic.

LONGER TERM OUTLOOK FOR THE CONSUMER

Next does not expect a double dip recession nor do we anticipate a meltdown in consumer spending, not least because overall employment levels are holding steady. However, we are expecting very little by way of growth in total consumer spending for the foreseeable future.

The reason for our caution is twofold: firstly, the necessary reduction in the Government deficit is likely to impact on consumer spending for some time to come. The annual reductions, which seem likely to be in the region of £20bn to £30bn per annum, are not so large as to derail the economy but enough to subdue any potential growth in consumer spending. To put the numbers in context, £25bn is only around 2% of total consumption but a significant share of normal growth in spending.

Secondly, a reaction to the credit crunch and the risk of future job losses has been for consumers to rebuild their personal balance sheets. This is partly self-restraint and partly as a result of the withdrawal of available credit. The growth in consumer credit has fallen from an average of 12% from 2000 to 2008 to around zero so far this year. The savings ratio has moved from 2% in 2008 to circa 7% today. It is therefore very unlikely that consumer spending will be driven by growth in consumer credit.



Source: Treasury Pocket Databank

So the outlook is balanced, not good, but not very bad either. We will have to adapt to a new type of consumer environment, one in which like for like sales growth is likely to be low for some time and top line growth will need to come from other opportunities. We believe it is sensible to view this environment as the new normal.

LONGER TERM OUTLOOK FOR SALES, PROFITS, CASH AND EPS

We believe that Next can both survive and thrive in this new consumer environment. Next has the opportunity to achieve top line growth through the acquisition of new retail space (especially for Home products) and through the continued growth of the Next Directory both in the UK and overseas. Whilst the growth in Group sales is unlikely to be spectacular, these opportunities may increase our sales by 2% to 5% per annum over the next three to five years, albeit that next year is likely to be the most challenging.

Careful management of costs and continued innovation in our operations may also allow us to improve net margins to give a growth in operating profit of somewhat more than sales, say between 2% and 7%. Over and above this we expect to generate surplus cash after capex, tax and dividends. At our current PE ratio this cash could finance annual buybacks of 4% to 5% of our issued share capital without increasing net debt, and enhance EPS by the same percentage.

The table below sets out scenarios by which modest growth in total sales could result in very healthy returns for shareholders. It should be stressed that this is a scenario and ***not*** a forecast. It is of course dependent on the economic environment remaining largely unchanged, our PE ratio remaining constant and no other significant opportunities for capex or growth emerging.

The key assumption we make here is that growth in earnings per share will in the long term result in growth in share price.

	Per annum
Possible 3–5 year sales growth	2%–5%
Possible operating profit growth	2%–7%
Possible EPS enhancement from cash and buybacks	4%–5%
Possible earnings per share growth	**6%–12%**
Plus likely dividend yield (dependent on share price)	**3%**
Possible Total Shareholder Return *assuming constant PE ratio*	**9%–15%**

SUMMARY

Next has delivered strong results in the first half and we expect to deliver EPS growth for the full year of between 13% and 18%. Looking forward we believe the consumer environment may remain sluggish for some time. However, Next has proven avenues for expansion that we can exploit to increase total sales. We believe that these growth opportunities combined with good cost control, strong cash generation and continuing share buybacks can deliver healthy total returns for shareholders.

Lord Wolfson
Chief Executive

15 September 2010

Unaudited Consolidated Income Statement

	Six months to July 2010 £m	Six months to July 2009 £m	Year to January 2010 £m
Revenue	**1,587.2**	1,512.3	3,406.5
Cost of sales	**(1,145.9)**	(1,084.4)	(2,409.6)
Gross profit	**441.3**	427.9	996.9
Distribution costs	**(105.3)**	(104.1)	(232.1)
Administrative expenses	**(104.5)**	(115.1)	(236.6)
Other (losses)/gains	**(6.3)**	(9.7)	0.7
Trading profit	**225.2**	199.0	528.9
Share of results of associates	**0.5**	0.5	0.9
Operating profit	**225.7**	199.5	529.8
Finance income	**0.1**	0.3	0.8
Finance costs	**(12.5)**	(14.3)	(25.3)
Profit before taxation	**213.3**	185.5	505.3
Taxation	**(58.4)**	(53.8)	(141.3)
Profit for the period	**154.9**	131.7	364.0

Profit for the period attributable to:			
Equity holders of the parent company	**155.0**	131.8	364.1
Minority interest	**(0.1)**	(0.1)	(0.1)
Profit for the period	**154.9**	131.7	364.0
Basic earnings per share	**84.5p**	68.2p	188.5p
Diluted earnings per share	**82.5p**	67.6p	185.6p
Fully diluted earnings per share	**78.7p**	63.6p	176.0p

Unaudited Consolidated Comprehensive Income Statement

	Six months to July 2010 £m	Six months to July 2009 £m	Year to January 2010 £m
Profit for the period	**154.9**	131.7	364.0
Other comprehensive income and expenses			
Exchange differences on translation of foreign operations	**(1.1)**	(5.0)	(5.0)
Gains/(losses) on cash flow hedges	**1.7**	(85.0)	(61.4)
Actuarial gains/(losses) on defined benefit pension schemes	**34.6**	0.9	(12.6)
Tax on items recognised directly in equity	**(1.8)**	26.6	19.0
	33.4	(62.5)	(60.0)
Reclassification adjustments			
Transferred to income statement on cash flow hedges	**(10.2)**	(27.5)	(8.3)
Transferred to the carrying amount of hedged items on cash flow hedges	**(19.6)**	4.3	5.2
Net income/(expense) recognised directly in equity	**3.6**	(85.7)	(63.1)
Total comprehensive income for the period	**158.5**	46.0	300.9

Attributable to:			
Equity holders of the parent company	**158.6**	46.0	301.0
Minority interest	**(0.1)**	–	(0.1)
Total comprehensive income for the period	**158.5**	46.0	300.9

Unaudited Consolidated Statement of Changes in Total Equity

	Six months to July 2010 £m	Six months to July 2009 £m	Year to January 2010 £m
Opening total equity	**133.4**	140.5	140.5
Total comprehensive income			
Equity holders of the parent company	**158.6**	46.0	301.0
Minority interest	**(0.1)**	–	(0.1)
Issue of shares	**0.1**	–	–
Shares purchased for cancellation	**(98.6)**	–	(190.5)
Shares purchased by ESOT	**(45.9)**	–	(59.3)
Shares issued by ESOT	**18.8**	5.0	33.7
Share option charge	**5.5**	3.0	9.4
Tax recognised directly in equity	**–**	–	7.2
Equity dividends paid	**(85.4)**	(71.5)	(108.5)
Closing total equity	**86.4**	123.0	133.4

Unaudited Consolidated Balance Sheet

	Notes	**July 2010 £m**	July 2009 £m	January 2010 £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant & equipment		**582.9**	595.0	577.2
Intangible assets		**46.9**	55.2	47.4
Interests in associates		**4.2**	3.7	4.0
Other investments		**1.0**	1.0	1.0
Other financial assets	6	**39.7**	19.2	22.7
		674.7	674.1	652.3
Current assets				
Inventories		**312.0**	326.0	309.0
Trade and other receivables		**600.9**	572.6	616.6
Other financial assets	6	**4.2**	1.5	8.6
Cash and short term deposits		**59.2**	32.4	107.0
		976.3	932.5	1,041.2
Total assets		**1,651.0**	1,606.6	1,693.5
Current liabilities				
Bank overdrafts		**(14.0)**	(9.3)	(4.7)
Unsecured bank loans		**(45.0)**	–	–
Trade and other payables		**(529.4)**	(515.9)	(550.3)
Other financial liabilities	6	**(105.8)**	(51.0)	(93.6)
Current tax liability		**(102.6)**	(94.1)	(109.5)
		(796.8)	(670.3)	(758.1)
Non-current liabilities				
Corporate bonds		**(527.4)**	(542.4)	(520.9)
Net retirement benefit obligation	7	**(14.9)**	(55.8)	(49.5)
Provisions		**(13.3)**	(12.7)	(13.4)
Deferred tax liabilities		**(1.2)**	(2.3)	(3.7)
Other financial liabilities	6	**(5.2)**	(2.3)	(4.4)
Other liabilities	8	**(205.8)**	(197.8)	(210.1)
		(767.8)	(813.3)	(802.0)
Total liabilities		**(1,564.6)**	(1,483.6)	(1,560.1)
Net assets		**86.4**	123.0	133.4
EQUITY				
Share capital		**18.4**	19.7	19.1
Share premium account		**0.8**	0.7	0.7
Capital redemption reserve		**11.5**	10.2	10.8
ESOT reserve		**(103.4)**	(43.5)	(78.2)
Fair value reserve		**(23.0)**	(38.6)	5.1
Foreign currency translation		**3.6**	4.7	4.7
Other reserves		**(1,443.8)**	(1,443.8)	(1,443.8)
Retained earnings		**1,622.6**	1,613.7	1,615.2
Shareholders' equity		**86.7**	123.1	133.6
Minority interest		**(0.3)**	(0.1)	(0.2)
Total equity		**86.4**	123.0	133.4

Unaudited Consolidated Cash Flow Statement

	Six months to July 2010 £m	Six months to July 2009 £m	Year to January 2010 £m
Cash flows from operating activities			
Operating profit	**225.7**	199.5	529.8
Depreciation and amortisation	**59.0**	60.0	123.1
Impairment of intangible assets	**–**	–	1.6
Impairment of property, plant & equipment	**1.3**	–	4.8
Loss on disposal of property, plant & equipment	**3.1**	2.1	5.5
Share option charge	**5.5**	3.0	9.4
Share of undistributed profit of associates	**(0.2)**	(0.2)	(0.5)
Exchange movement	**5.0**	9.6	(1.6)
(Increase)/decrease in inventories	**(3.0)**	(7.3)	9.7
Decrease/(increase) in trade and other receivables	**15.7**	49.8	6.0
(Decrease)/increase in trade and other payables	**(22.6)**	(18.1)	31.1
Pension contributions less income statement charge	**–**	(12.5)	(32.2)
Cash generated from operations	**289.5**	285.9	686.7
Corporation taxes paid	**(69.8)**	(43.9)	(115.2)
Net cash from operating activities	**219.7**	242.0	571.5
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment	**0.2**	0.3	0.4
Acquisition of property, plant & equipment	**(68.6)**	(45.5)	(98.6)
Expenditure on intangible assets	**–**	(0.3)	–
Net cash from investing activities	**(68.4)**	(45.5)	(98.2)
Cash flows from financing activities			
Proceeds from the issue of share capital	**0.1**	–	–
Repurchase of own shares	**(156.7)**	–	(101.8)
Purchase of shares by ESOT	**(25.2)**	–	(39.2)
Proceeds from disposal of shares by ESOT	**18.8**	5.0	33.7
Proceeds/(repayment) of unsecured bank loans	**45.0**	(75.0)	(75.0)
Repurchase of corporate bonds	**–**	(17.0)	(46.6)
Interest paid	**(5.1)**	(12.4)	(32.1)
Interest received	**0.1**	0.3	0.9
Payment of finance lease liabilities	**(0.2)**	(0.2)	(0.4)
Dividends paid	**(85.4)**	(71.5)	(108.5)
Net cash from financing activities	**(208.6)**	(170.8)	(369.0)
Net (decrease)/increase in cash and cash equivalents	**(57.3)**	25.7	104.3
Opening cash and cash equivalents	**102.3**	1.5	1.5
Effect of exchange rate fluctuations on cash held	**0.2**	(4.1)	(3.5)
Closing cash and cash equivalents (Note 9)	**45.2**	23.1	102.3

1. Basis of preparation

The Group's interim results for the six months ended 31 July 2010 were approved by the Board of Directors on 15 September 2010, and have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Other than as described below, 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 30 January 2010. 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 contained in this report does not constitute statutory accounts of the Company within the meaning of Section 434(3) of the Companies Act 2006. Statutory accounts for the year to January 2010 have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or (3) of the Companies Act 2006.

Going concern

The Directors report that, having reviewed current performance and forecasts, they have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

Changes to accounting standards

In the current financial year, the Group has adopted the requirements of IFRS 3 *Business Combinations* (revised 2008). The most significant change to the Group's accounting policies as a consequence of the revised standard is that any changes to the cost of an acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in the income statement. Previously, such changes resulted in an adjustment to goodwill.

The adoption of IFRS 3 (revised 2008) has not resulted in any changes to any assets or liabilities as previously reported by the Group. For acquisitions made prior to 31 January 2010, any adjustments to contingent consideration will continue to be accounted for under IFRS 3 (2004) as an adjustment to goodwill.

2. Segmental analysis

The Group's operating segments under IFRS 8 have been determined based on the management accounts reviewed by the Board of Directors. The Board assesses the performance of the operating segments based on profits before interest and tax, excluding share option charges recognised under IFRS 2 and unrealised foreign exchange gains or losses on derivative instruments.

	External revenue		Internal revenue		Total revenue	
	2010	2009	**2010**	2009	**2010**	2009
Six months to July	**£m**	£m	**£m**	£m	**£m**	£m
Next Retail	**1,026.2**	1,004.3	**2.6**	1.5	**1,028.8**	1,005.8
Next Directory	**422.8**	386.2	**–**	–	**422.8**	386.2
Next International	**30.8**	30.0	**–**	–	**30.8**	30.0
Next Sourcing	**1.7**	1.9	**218.6**	250.3	**220.3**	252.2
Next Brand	**1,481.5**	1,422.4	**221.2**	251.8	**1,702.7**	1,674.2
Ventura	**75.5**	72.2	**2.4**	2.2	**77.9**	74.4
Property Management	**3.3**	2.8	**92.7**	88.8	**96.0**	91.6
Total segment revenues	**1,560.3**	1,497.4	**316.3**	342.8	**1,876.6**	1,840.2
Other activities	**26.9**	14.9	**1.6**	0.9	**28.5**	15.8
Eliminations	**–**	–	**(317.9)**	(343.7)	**(317.9)**	(343.7)
	1,587.2	1,512.3	**–**	–	**1,587.2**	1,512.3

Other segment revenues comprise sales by Lipsy and third party distribution activities.

2. Segmental analysis (continued)

Six months to July	Segment profit 2010 £m	2009 £m
Next Retail	**122.9**	112.3
Next Directory	**101.3**	83.3
Next International	**2.3**	3.1
Next Sourcing	**12.5**	16.2
Next Brand	**239.0**	214.9
Ventura	**3.1**	2.1
Property Management	**1.3**	0.1
Total segment profit	**243.3**	217.1
Other activities	**(6.4)**	(5.5)
Share option charge	**(5.5)**	(3.0)
Unrealised foreign exchange loss	**(6.3)**	(9.6)
Trading profit	**225.2**	199.0
Share of results of associates	**0.5**	0.5
Finance income	**0.1**	0.3
Finance costs	**(12.5)**	(14.3)
Profit before tax	**213.3**	185.5

3. Risks & uncertainties

The changing consumer environment and its potential impact on the Group's sales performance remains a major variable, and therefore risk, to the Group's financial performance. The Chief Executive's Review in this Interim Management Report comments on this and other uncertainties affecting the Group's businesses for the remaining six months of the financial year.

In addition, the Board has considered the principal risks and uncertainties for the remaining six months of the financial year and determined that the risks presented in the 2010 Annual Report, described below, will also remain relevant to the rest of the financial year:

- Business strategy development & implementation;
- Credit risk & liquidity;
- Management team;
- Product design & selection;
- Key suppliers & supply chain management;
- Development of retail store network & Directory customer base;
- Warehousing & distribution;
- IT systems & business continuity;
- Call centre capacity & service levels; and
- Treasury & financial risk management

These are detailed on pages 13 to 15 of the 2010 Annual Report, a copy of which is available on the Company's website at www.nextplc.co.uk.

4. Earnings per share

	Six months to July 2010	Six months to July 2009	Year to January 2010
Profit after tax attributable to equity holders of the parent company (£m)	**155.0**	131.8	364.1
Weighted average shares in issue	**186.8**	197.1	196.6
Weighted average shares held by ESOT	**(3.4)**	(3.9)	(3.5)
Weighted average shares for basic EPS	**183.4**	193.2	193.1
Basic earnings per share (p)	**84.5**	68.2	188.5
Weighted average shares for basic EPS	**183.4**	193.2	193.1
Weighted average dilutive potential shares	**4.5**	1.9	3.1
Weighted average shares for diluted EPS	**187.9**	195.1	196.2
Diluted earnings per share (p)	**82.5**	67.6	185.6
Weighted average shares for basic EPS	**183.4**	193.2	193.1
Weighted average share options outstanding	**13.6**	14.1	13.7
Weighted average shares for fully diluted EPS	**197.0**	207.3	206.8
Fully diluted earnings per share (p)	**78.7**	63.6	176.0

Basic earnings per share is based on the profit for the six months attributable to the equity holders of the parent company and 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 the weighted average number of shares used for the calculation of basic earnings per share as increased by the dilutive effect of potential ordinary shares. Dilutive potential ordinary shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period.

Fully diluted earnings per share is used for the purposes of the Share Matching Plan and is based on the weighted average number of shares used for the calculation of basic earnings per share increased by the weighted average total employee share options outstanding during the period. The profit figure used for the calculation is the same as for basic and diluted earnings per share, with no adjustments for interest income that would arise on proceeds from exercise of these options.

5. Share purchases

During the six months to July 2010, the Company purchased for cancellation 6,735,706 of its own ordinary shares of 10p each in the open market at a total cost of £138.5m. Of these, 3,635,706 shares were purchased under the irrevocable close season buyback agreement to which the Company was party at 30 January 2010.

On 23 April 2010 the Company issued 6,897 ordinary shares of 10p each to an employee at market price for cash consideration of £0.1m. On 31 July 2010 the Company had 184,439,796 shares in issue.

At 31 July 2010 the Company was party to an irrevocable close season buyback agreement for the purchase for cancellation of a maximum of 1,500,000 of its own ordinary shares of 10p each. As at 13 September 2010 the Company had subsequently purchased and cancelled 1,118,409 shares under this agreement at a total cost of £22.3m. No such arrangement was in place at 25 July 2009.

In addition, during the six months to July 2010, the ESOT purchased 1,375,000 Next plc ordinary shares of 10p each under off-market contingent purchase contracts at a total cost of £27.5m. At 31 July 2010 the ESOT was party to off-market contingent purchase contracts for a maximum of 1,900,000 Next plc shares at a maximum total cost of £38.3m.

At 31 July 2010 the ESOT held 3,742,652 (2009: 3,636,900) ordinary shares of Next plc.

6. Other financial assets and liabilities

Other financial assets and other financial liabilities comprise the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks. At July 2010, other current financial liabilities also included a total of £69.4m arising under irrevocable close season buyback agreements entered into by the Company and contingent purchase contracts for the purchase by the ESOT of shares in Next plc.

7. Retirement benefit plans

The net pension deficit reported under IAS 19 for the defined benefit section of the Next Group Pension Plan (the "Plan") has decreased from £49.5m at January 2010 to £14.9m at July 2010 as a result of the following factors:

Based on updated full membership data, there was a decrease in the calculated value of the plan liabilities, primarily due to rates of increase of salaries and pensions in payment being lower than had previously been assumed.

In addition, actual returns on plan assets were greater than the expected returns assumed at January 2010.

Post balance sheet event

As part of the Group's risk management strategy for the liabilities arising under the Plan, certain pensioner liabilities were subject to a buy-in arrangement on 2 August 2010. Under the terms of this arrangement, the Plan paid £124m to an insurance company and will in return receive annuity payments equal to the monthly pensions currently in payment. This eliminates the Plan's exposure to the interest, inflation and longevity risks associated with these pensioner members.

The buy-in will have no impact on the reported profits of the Group for the year to January 2011, or the liabilities of the Plan as calculated under IAS 19. The income stream receivable under the annuity payments will become an asset of the plan with a value equal to the related liabilities under IAS 19. As this is less than the cash cost of the buy-in, the transaction will reduce the reported assets of the Plan by approximately £15m. In order to mitigate this reduction and facilitate the buy-in transaction, Next paid a contribution of £40m to the Plan on 16 August 2010.

8. Other non-current liabilities

Other non-current liabilities relate to the long term element of deferred lease incentives received and liabilities which are not expected to be settled within one year.

9. Analysis of net debt

	January 2010 £m	Cash flow £m	Other non-cash changes £m	**July 2010 £m**
Cash and short term deposits	107.0			**59.2**
Overdrafts	(4.7)			**(14.0)**
Cash and cash equivalents	102.3	(57.3)	0.2	**45.2**
Unsecured bank loans	–	(45.0)		**(45.0)**
Corporate bonds	(520.9)	–	(6.5)	**(527.4)**
Fair value hedges of corporate bonds	19.5	–	15.0	**34.5**
Finance leases	(1.0)	0.2	–	**(0.8)**
Total net debt	(400.1)	(102.1)	8.7	**(493.5)**

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

Lord Wolfson
Chief Executive

David Keens
Group Finance Director

15 September 2010

This statement, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at www.nextplc.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 "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect Next's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to those matters highlighted in note 3 of these interim financial statements; failure by Next to accurately predict customer fashion preferences; decline in the demand for merchandise offered by Next; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of Next's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of Next to successfully implement relocation or expansion of existing stores; 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 does not undertake any obligation to publicly update or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.