

next plc

**Results for the
Half Year Ending
July 2017**

CHIEF EXECUTIVE'S REVIEW

OVERVIEW

The first half of the year has been difficult and sales and profits are in line with our cautious expectations. However, our performance in the last three months has been encouraging on a number of fronts and whilst the retail environment remains tough, our prospects going forward appear somewhat less challenging than they did six months ago. As a result, we are taking the opportunity to modestly upgrade our sales and profit guidance for the full year.

NEXT Brand full price sales¹ in the first half were down -1.2% and total sales² (including markdown) were down -2.3% on last year. Group profit before tax was down -9.5% and Earnings Per Share (EPS) were down -6.2%. The first half has seen a marked divergence of performance between our Retail and Directory businesses, with sales and profits down in Retail but moving forward in Directory.

We are declaring an ordinary interim dividend of 53p per share, which is in line with last year.

TOTAL SALES excluding VAT	July 2017 £m	July 2016 £m	
NEXT Retail	993.2	1,083.6	- 8.3%
NEXT Directory	868.4	821.2	+5.7%
NEXT Brand	1,861.6	1,904.8	- 2.3%
Other	52.4	52.3	
Total NEXT Group sales	1,914.0	1,957.1	- 2.2%
Statutory Revenue	1,887.6	1,939.7	

PROFIT and EPS	July 2017 £m	July 2016 £m	
NEXT Retail	89.5	133.9	- 33.1%
NEXT Directory	217.1	204.2	+6.3%
NEXT Brand	306.6	338.1	- 9.3%
Other	18.6	22.4	
Operating profit	325.2	360.5	- 9.8%
Net interest	(15.8)	(18.4)	
Profit before tax	309.4	342.1	- 9.5%
Taxation	(57.2)	(68.6)	
Profit after tax	252.2	273.5	
EPS	176.9p	188.6p	- 6.2%
Ordinary dividends per share	53.0p	53.0p	0.0%

¹ Full price sales are VAT exclusive sales, excluding items sold in our mid-season or end-of-season Sale events and our Clearance operations. They include interest income relating to those sales.

² Total sales are VAT exclusive sales including the full value of commission based sales and interest income (refer to Note 3 of the financial statements).

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This document is divided into three parts:

PART 1 Business Update: Gives an overview of the progress of the major business units in the first half of the year.

PART 2 Focus Section: On three key areas; (1) progress made in improving our Product ranges, (2) the long-term profitability of NEXT Retail and (3) the modernisation of NEXT Directory.

PART 3 Outlook and Guidance: Forward looking guidance for the full year

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PART 1 – BUSINESS UPDATE

NEXT RETAIL

RETAIL SALES AND PROFIT ANALYSIS

Total Retail sales reduced by -8.3% and full price sales were down -7.7%. Net new space contributed +2.5% to growth. As expected, our Retail business has had a particularly difficult half and profits fell -33.1%. The combination of falling sales, a large fixed cost base, some one-off increases in costs and higher markdown costs, all served to reduce profit.

£m	July 2017	July 2016	
Retail total sales	993.2	1,083.6	- 8.3%
Retail operating profit	89.5	133.9	- 33.1%
Retail net margin	9.0%	12.4%	

The table below sets out significant Retail margin movements by major heads of costs.

Net operating margin on total sales last year		12.4%
Bought-in gross margin	Increased air freight has reduced margins slightly.	- 0.1%
Markdown	Stock for Sale was down -5.7% on last year with markdown sales down -13.6%. This lower cash recovery ³ reduced margin.	- 0.5%
Store payroll	Productivity initiatives in store more than offset increases in rates of pay which would have reduced margins by -0.6%.	+ 0.2%
Store occupancy	Negative like-for-like ⁴ sales increased fixed costs as a percentage of sales. Underlying rental inflation was flat.	- 2.2%
Warehouse & distribution	Negative like-for-like sales increased fixed costs as a percentage of sales, partially offset by cost saving initiatives in our distribution network.	- 0.3%
Central overheads	Central overhead costs reduced marginally but increased as a percentage of sales.	- 0.5%
Net operating margin on total sales this year		9.0%

We expect Retail net margins for the full year to reduce from 14.7% to around 11.8%.

³ Cash recovery is the cash generated from markdown sales expressed as a percentage of the full price value of the stock going into Sale.

⁴ Decline in sales from stores which have been open for at least one year.

RETAIL SPACE EXPANSION

We expect to increase net trading space by 85,000 square feet this year, taking our portfolio to 8.1m square feet. In March 2017 we forecast our trading space would increase by 150,000 square feet. However, since then, three store openings have slipped into next year and we have increased the number of store closures from 9 to 13. In addition, we now plan to convert an additional 14,000 square feet to concessions.

The table below sets out the forecast change in store numbers and space for the full year.

	Store numbers	Sq. ft. ('000)	
January 2017	538	7,978	
New stores, including 12 re-sites	+20	+345	
Closures, including 15 re-sites	- 28	- 278	
Extensions (4), including 1 re-site	-	+18	
January 2018	530	8,063	+1.1%

The profitability⁵ of the portfolio of stores opened or extended in the last 12 months is forecast to be 23% of VAT inclusive sales and payback on the net capital invested is expected to be 28.6 months. Whilst the profitability of new space is within our hurdle rate of 15%, payback has moved beyond the 24 month hurdle rate.

The main reason for the miss on payback is the failure of five stores to meet their targets after they had been extended and extensively refit. In hindsight, we had overestimated the uplift on sales that could be generated from the cosmetic element of upgrading these shops. We should have budgeted for their upgrade within our cosmetic capital expenditure budget (the capital expenditure required to keep our stores up to date) rather than development capex. Going forward we expect that, as the rate of acquisition of new stores slows, we will need to spend a little more on cosmetic capex. We estimate that our annual store cosmetic capex is likely to rise from an average of £11m to around £16m over the next few years.

The payback miss in the first half should not be taken as a relaxation of our hurdle rates. Going forward we intend to maintain our hurdle rates of 15% store profitability and 24 months payback on net capital invested.

During 2018, we expect to add between 150,000 and 200,000 square feet of net trading space; this estimate is based on lease terms currently contracted and those under offer.

⁵ Profitability refers to net branch contribution. Net branch contribution is defined as profit before central overheads and is expressed as a percentage of VAT inclusive sales.

NEXT DIRECTORY

NEXT DIRECTORY SALES PERFORMANCE

Total Directory sales grew by +5.7%, with full price sales growth of +7.4%. The table below shows the growth in full price sales for each element of the business. Full price sales in the UK grew by +3.1% and our overseas business grew by +30.7%. The table on the right shows Directory performance by quarter demonstrating the significant improvement in the second quarter.

Full price sales growth	£m	Full price % var	Q1 % var	Q2 % var
UK NEXT	- 21	- 4.1%	- 7.4%	- 1.0%
UK LABEL	+40	+40.6%	+30.6%	+50.4%
Total UK	+19	+3.1%	- 1.2%	+7.3%
Overseas	+34	+30.7%	+25.9%	+36.4%
Total	+53	+7.4%	+3.3%	+11.4%

DIRECTORY CUSTOMER BASE

Average active customers⁶ increased by +4% to 4.9 million, driven by the growth of UK 'cash' customers (those who do not use our credit account when ordering) and customers overseas. The table below sets out the growth in the respective parts of our customer base. It is important to note that our average active credit customers are broadly flat on last year, a considerable improvement on the deterioration we have experienced over the last four years (for further commentary see NextPay page 26).

Average active customers (m)	July 2017	July 2016	
UK credit account	2.49	2.50	0%
UK cash	1.50	1.35	+11%
Total UK	3.99	3.85	+3%
Overseas	0.90	0.85	+6%
Total	4.89	4.70	+4%

⁶ Active customers are defined as those who have placed a Directory order or received a standard account statement in the last 20 weeks.

DIRECTORY PROFIT ANALYSIS

Total NEXT Directory sales grew by +5.7% and profit grew by +6.3%, as shown in the table below.

£m	July 2017	July 2016	
Directory total sales	868.4	821.2	+5.7%
Directory operating profit	217.1	204.2	+6.3%
Directory net margin	25.0%	24.9%	

The table below sets out significant Directory margin movements by major heads of costs.

Net operating margin on total sales last year		24.9%
Bought-in gross margin	The increased participation of sales of lower margin third-party branded products and overseas sales reduced margin by -0.8%.	- 0.8%
Markdown	Stock for Sale was broadly flat but markdown sales reduced by -4.3%; this lower cash recovery reduced margin by -0.2%. This was offset by the improvement in full price sales as a proportion of total sales, which increased margin by +0.4%.	+0.2%
Interest income	Interest income reduced margin by -0.2% as credit sales have not grown as fast as total sales.	- 0.2%
Warehouse & distribution	Greater efficiencies in our warehousing operations improved margin by +0.6%. This was partially offset by a growth in overseas sales which have higher distribution costs (-0.3%).	+0.3%
Photography & catalogue production	Cost savings in print and photography increased margin.	+0.4%
Systems & marketing	Investment in Directory systems and online content reduced margin.	- 0.4%
Central overheads	Call centre and other central overhead efficiencies increased margin.	+0.6%
Net operating margin on total sales this year		25.0%

We expect Directory net margins for the full year to reduce from 25.7% to around 25%.

DIRECTORY OVERSEAS

Directory overseas continues to trade well and full price sales in the first half were up +31% on last year and up +13% on a constant currency basis. We expect sales growth for the full year to be up +24% which would represent an increase of +10% in constant currency.

Sales and Profit

The table below sets out the last four years' sales, profits and net margins in Pounds Sterling for Directory overseas, along with an estimate for the full year. We have achieved further efficiencies within our parcel networks and distribution hubs. We have invested some of these gains in reducing prices in key territories. Overall margin is expected to move forward by 2%.

£m	Jan 2014	Jan 2015	Jan 2016	Jan 2017	Jan 2018 (e)
Total sales	101	163	197	234	290
Operating profit	18	30	31	46	63 ⁷
Net margin	18%	18%	16%	20%	22%

Over the course of this year we intend to increase the number of Continental European countries served by our German hub. This is expected to reduce costs and serves to prepare our Continental business for any changes that might occur to customs arrangements over the coming years.

LABEL

The Emergence of Two Businesses

LABEL sells third-party brands through the NEXT Directory. Over the last couple of years its business has slowly developed into two distinct parts:

- Our core LABEL business focuses on third-party Premium and Sports brands which are sold under the "LABEL" umbrella.
- Our young fashion offer has Lipsy at its heart, but is now supplemented by an increasing number of third-party brands. This business is branded Lipsy & Co.

Both areas are doing very well with sales being driven by a combination of additional brands and increased breadth of offer, better stock availability, better ranging, additional brochures and increasing customer awareness.

⁷ Profit for this year now includes an allocation of central overheads and markdown costs. This cost allocation reduces overseas profitability by 3%.

Wholesale and Commission

LABEL and Lipsy & Co both operate with their partner brands in two different ways. With some partners we operate a wholesale model, buying their stock and selling it at our risk. An increasing number of partners are now choosing to work with us on a commission basis, whereby we market, warehouse and distribute their product, taking a fixed commission on sales, with the partner bearing the risk of markdown.

Although we make lower net margins through the commission model we encourage partners to adopt it. This is because we believe that, in the long run, it will generate higher sales growth. In time we hope it will also ensure that the NEXT Directory is one of our partner's most profitable routes to market.

Sales and Profit

The table below sets out the last three years' sales, profits⁸ and net margins for LABEL, along with our estimate for the current year.

£m	Jan 2015	Jan 2016	Jan 2017	Jan 2018 (e)
Total sales	145	180	206	285
Operating profit	20	22	34	50
Net margin	14%	12%	16%	17%

For the full year we expect full price sales to be up +40%. Net margin is forecast to improve to 17% mainly due to spend on catalogues and photography not increasing in line with sales.



September 2017 The brands you love - delivered tomorrow LABEL



⁸ Sales and profit referred to in this section exclude interest income on LABEL items purchased on a Directory account.

OTHER BUSINESS ACTIVITY

NEXT SOURCING

NEXT Sourcing (NS) is our internal sourcing agent, which procures around 38% of NEXT branded product (down from 40% last year). In common with the wider manufacturing sector NS experienced pressure on its prices. NS sales were down -17% in US Dollars, mainly as a result of the reductions in the Dollar cost prices NEXT has achieved across its entire supplier base. In addition, NS lost some of its share to competing suppliers.

Falling sales and increased investment in product design meant that fixed overheads increased as a percentage of sales. This resulted in net margin falling by -1.4% to 5.9%.

The profit impact in Pounds Sterling was partially mitigated by the stronger Dollar. The table below sets out the performance of the business in Sterling and in Dollars.

	July 2017 £m	July 2016 £m		July 2017 USD m	July 2016 USD m	
Sales (mainly inter-company)	274.8	299.8	- 8%	349.0	419.7	- 17%
Gross margin & commission	30.3	33.4		38.4	46.7	
<i>Gross margin %</i>	11.0%	11.1%		11.0%	11.1%	
Overheads	(14.2)	(11.6)		(17.9)	(16.2)	
Operating profit	16.1	21.8	- 26%	20.5	30.5	- 33%
Net margin	5.9%	7.3%		5.9%	7.3%	
Exchange rate	1.27	1.40				

For the full year, we expect NS to make around \$46m profit, compared to \$60m last year. This would equate to a profit of around £36m in Pounds Sterling, down -19% (£8.7m) on last year.

LIPSY

Lipsy is a wholly owned subsidiary managed at arms-length from its headquarters in London. Lipsy sells product through a number of different channels including the NEXT website and NEXT Retail stores. Sales through NEXT are sold on a 50:50 profit share basis and reported through Directory and Retail respectively. These sales are also included in the table below to give a complete picture of Lipsy's sales performance.

The table below sets out Lipsy's sales by distribution channel.

Sales (£m)	July 2017	July 2016	
Wholesale	3.7	6.8	
Franchise	2.2	1.5	
Lipsy stand-alone retail stores	0.7	1.7	
Lipsy.co.uk	5.5	4.1	
Total Lipsy sales	12.1	14.1	- 14%
Lipsy sales through NEXT Retail (reported in NEXT Retail)	6.5	7.1	- 8%
Lipsy sales through NEXT Directory (reported in NEXT Directory)	31.0	19.9	+56%
Total sales	49.6	41.1	+21%

Lipsy has continued to reduce its UK wholesale business which is less profitable than (and competes with) its other sales channels. This has been more than offset by increased sales in NEXT Directory.

Excluding acquisition costs, operating profit was £5.0m which was up +30% on last year. Net operating profit including acquisition costs was £3.1m, up +10% on last year. We are anticipating full year net operating profit of around £6.5m compared with £5.5m last year.

INTERNATIONAL RETAIL AND FRANCHISE STORES

Our franchise partners currently operate 200 stores in 32 countries. Franchise sales have increased by +2% due to our partners increasing the number of stores that they trade from. Revenue and profit are set out below.

£m	July 2017	July 2016
Franchise income ⁹	27.2	26.6
Own store sales	5.4	5.5
Total revenue	32.6	32.1
Operating profit	4.1	4.2

NON-TRADING ACTIVITIES

The table below summarises central costs and other non-trading activities.

£m	July 2017	July 2016
Central costs and employee share schemes	(8.0)	(9.9)
Property management	2.9	3.0
Unrealised foreign exchange	(0.1)	-
Associate	0.5	0.6
Total	(4.7)	(6.3)

⁹ Franchise income is a combination of royalties or commission added to cost of goods sold to franchise partners.

COST INFLATION AND COST CONTROL

In the year to January 2018, we anticipate mitigating cost increases of £29m with cost savings of £31m. The tables below outline the main contributors to cost increases and cost savings in the year. Cost control remains at the heart of the business and we remain determined that cost savings must come through innovation and efficiency, rather than any compromise to our product quality or services.

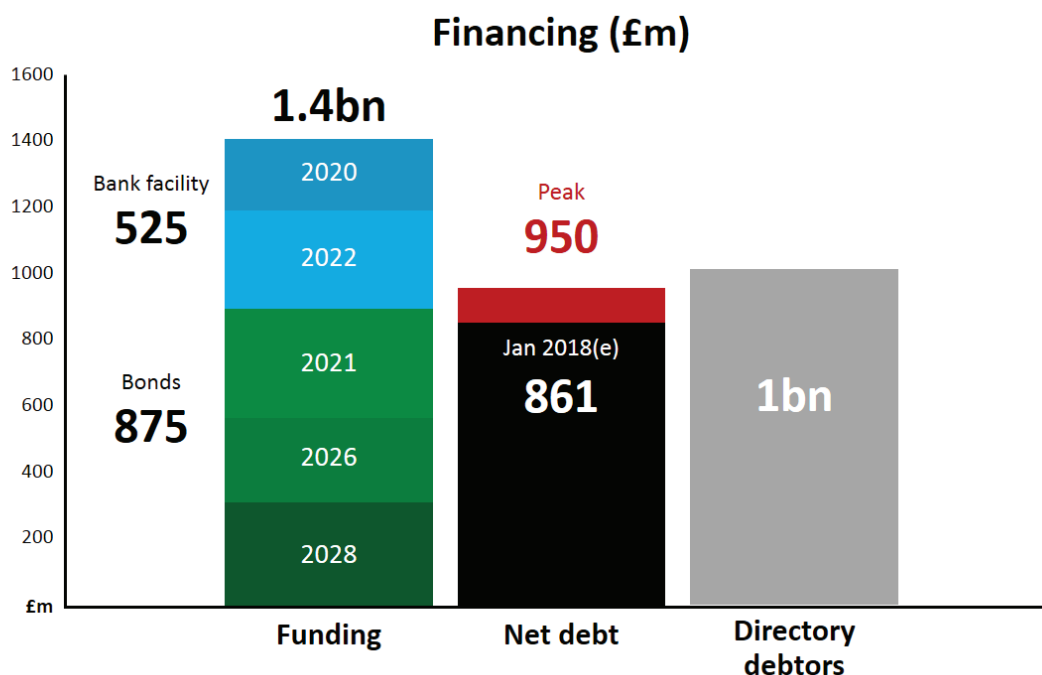
Costs and Savings Forecast for the Year Ending January 2018

Cost increases	£m (e)
Investment in online systems	10
General wage inflation	8
Taxes (rates, Apprenticeship Levy, energy taxes)	6
National Living Wage	4
Other increases	1
Total cost increases	29

Cost savings and other income	£m (e)
Reduction in depreciation due to fully depreciated assets	10
Retail productivity and cost improvements	7
Interest payable on bonds and bank debt	4
Brand marketing and catalogue creation	4
Other savings	5
Net interest income and bad debt	1
Total cost savings and other income	31

NET DEBT AND FINANCING

Net debt, which peaks at around £950m, is securely financed through a combination of bonds and committed bank facilities. At July 2017 our financing consists of £875m of bonds and £525m of committed bank facilities. Based on our central profit guidance for this year, we are forecasting our net debt to remain around £861m at the year end. The entire value of the Group's net debt is more than matched by the value of our Directory debtor book, a financial asset worth £1bn.



The Group maintains its objective of retaining investment grade status. At £861m, the Group's net debt is comfortably within the limit of investment grade status which we estimate to be around £1.5bn.

CASH FLOW

Forecast cash generation for the year before interest, tax and depreciation is £875m. Cash flow after non-discretionary outflows of taxation, interest and working capital is forecast at £657m. After investing in capital expenditure and paying ordinary dividends the Group expects to generate surplus cash of around £310m.

The table below summarises our estimated cash flows in the year ending January 2018. Of the £310m of surplus cash that we expect to generate, we have stated our intention to pay out £257m by way of four special dividends of 45p per share. Two of these dividends have been paid in the year to date and a third has been declared and will be paid to eligible shareholders on the 1 November 2017. As can be seen in the table below, it is likely that we will be left with £53m of surplus cash at the end of the year. We now intend to distribute this to shareholders by way of share buybacks, subject to the prevailing share price and market conditions.

£m	Jan 2018 (e) Central guidance
Profit before Interest, Tax, Depreciation and Amortisation (EBITDA)	875
Interest	(34)
Tax	(113)
Working capital and other	(71)
Discretionary cash flow	657
Capital expenditure	(122)
Ordinary dividends	(225)
Surplus cash	310
Special dividends	(257)
Remaining surplus cash	53

INTEREST AND TAXATION

For the full year, we expect to pay interest of £34m, a reduction of £3m on the prior year, reflecting lower average net debt.

Our full year tax rate is estimated at 18.5%, slightly lower than the headline UK corporation tax rate of 19% due to overseas tax differentials. Included in the forecasted tax payment is a refund from HMRC of £24.6m relating to overpaid corporation tax attributable to prior years.

CAPITAL EXPENDITURE

In the current year we expect our capital expenditure to be £122m, which is £39m lower than last year. The reduction on last year is as a result of a decrease in spending on retail space and a large investment in the prior year for a new automated furniture warehouse.

Our capital expenditure forecast for the full year is shown by category in the table below with the equivalent figures for the last two years.

£m	Jan 2018 (e)	Jan 2017	Jan 2016
Retail space expansion	73	108	86
Retail cosmetic capex	21	11	15
Total capex on stores	94	119	101
Warehouse	13	28	22
Head Office infrastructure	6	10	15
Systems	9	4	13
Total capital expenditure	122	161	151

New retail space remains our biggest investment at £73m. Cosmetic capex of £21m is much larger than normal because it includes £11m for the refit of our store in the Arndale Centre, Manchester which includes a number of important trials (see page 20 for further information).

The increase in systems capital expenditure of £5m mainly relates to the investment in new hand held scanners for our stores. Expenditure on Head Office infrastructure is reducing to £6m as we come to the end of a three year programme to upgrade our central facilities.

INTERIM DIVIDENDS

We are declaring an ordinary interim dividend of 53p per share, in line with last year, to be paid on 2 January 2018. Shares will trade ex-dividend from 7 December 2017 and the record date will be 8 December 2017.

PART 2 – FOCUS SECTION

FOCUS ON PRODUCT

IMPROVING PRODUCT RANGES

At the beginning of the year we outlined some errors and omissions in our Spring and Summer product ranges. At that time, we set out our timescales for range improvements, stating that we expected enhancements to be noticeable from September.

We saw some small improvement in the second quarter, but believe that our August/September ranges represent a more meaningful step forward. We have only had seven weeks' trade of the new Season, and whilst the comparative numbers from last August and early September were very weak, the initial signs look encouraging.

The process of range improvement is by no means over and we hope that our Winter ranges, delivered in October, will represent further improvement. Going forward our focus remains the delivery of design led, high quality clothing and homeware that is widely affordable – delivering the new trends in a way that is both exciting and wearable. We will continue to place great emphasis on improving our design, product development and speed of decision making.

OUTLOOK FOR PRICES

In March of this year we outlined the effect that Sterling's devaluation was likely to have on our prices; at that time we expected price rises of around +5%. The table below sets out our costing rates for this year and the year ahead. There are two points to note from the table:

- The price increases we have experienced are much lower than the devaluation of Sterling. Surplus manufacturing capacity in a weak clothing market, combined with increased use of new and developing sources of supply, has meant that we have been able to negotiate out most of the currency devaluation.
- Next year price inflation looks set to work its way out of the system as the effects of the one-off Brexit devaluation of the Pound begins to annualise. Assuming no further movement in the value of Sterling, in the first half of 2018 we expect price rises of no more than +2% and no price rises at all in the second half of 2018.

Buying season	Dollar rate last year	Dollar rate this year	Costing rate variance	Average selling price variance
Spring & Summer 17	\$1.54	\$1.39	- 10%	+4%
Autumn & Winter 17	\$1.47	\$1.26	- 14%	+4%
Spring & Summer 18	\$1.39	\$1.26	- 9%	+2% (e)
Autumn & Winter 18	\$1.26	\$1.29 (e)	+2%	Flat (e)

RETAIL STORES IN AN ONLINE WORLD

As the centre of gravity of the clothing market shifts towards the internet, we have taken a long hard look at the future of our Retail business. There are those that believe that retail shops will be more of a liability than an asset in the future; we do not see it that way. There are two important reasons. Firstly, our store portfolio looks set to remain profitable and strongly cash generative for many years to come. Secondly, our shops are an important part of our online service to the increasing number of customers who collect and return their orders through our stores.

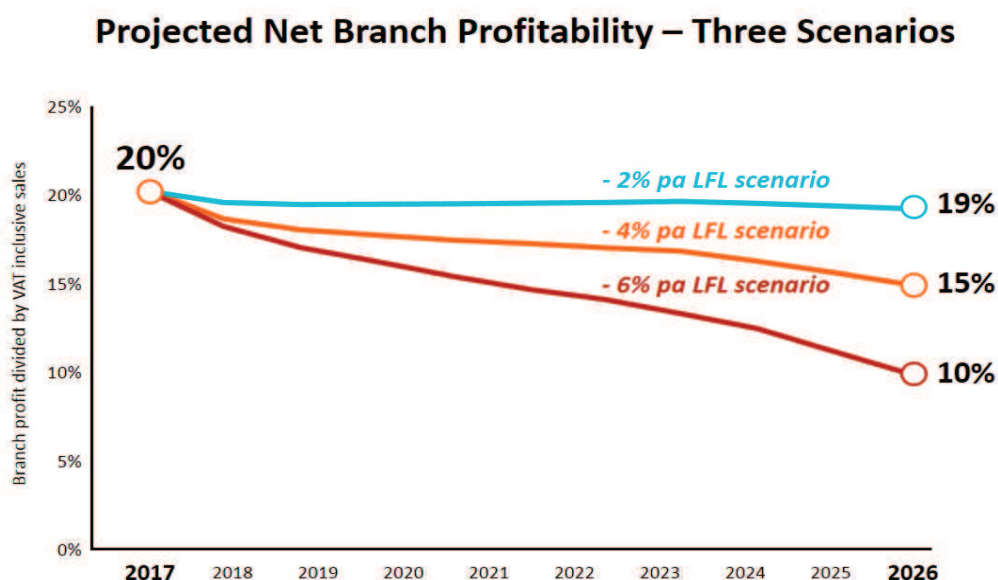
RETAIL FINANCIAL STRESS TEST DEVELOPED

Store Profitability – Long Term Scenarios

In this section we further develop the financial stress testing of our stores first introduced in our year-end report in March 2017. At that time, we modelled the profitability of our branch portfolio in three 10 year scenarios; compound annual like-for-like sales declines of -2%, -4% and -6%. In each case we made the following three assumptions:

- We shut unprofitable stores at their lease expiry.
- When profitable stores reach the end of their lease we are able to continue trading, paying the same rent on a short term lease.
- We take on no new space.

For completeness the graph we published in March 2017 is repeated below:



In the worst case scenario (-6% compound annual decline), a net branch contribution of 10% would result in around £100m of cash being generated by the store portfolio in year ten. This begs the question: could the business carry its central (non-store) overheads if sales deteriorated so rapidly? The next section analyses the non-store costs for Retail and how they are likely to vary in our worst case scenario.

The emphasis on the worst case is not because we believe it to be the most likely, but because we believe that it sets out a very conservative case for the financial value of our Retail business.

Analysis of Central Overheads

Our annual non-store cash costs for Retail fall into four broad categories:

- Marketing £40m – including window display, graphics and in-store display equipment.
- Warehousing £50m.
- Distribution £60m.
- Head Office costs £80m – including Product teams, HR, Systems and Finance.

At present these non-store cash costs¹⁰ amount to £230m. In the event of sales following the worst case -6% like-for-like scenario, we estimate that sales over ten years would drop by -57% (-32% from falling like-for-like sales and a further reduction of -25% from the closure of unprofitable stores). In these circumstances we estimate that Retail central overheads would fall from £230m to nearer £120m in ten years time. There are three reasons why central overheads would reduce:

1. **Variable central costs would decline.** We estimate that circa £45m (20%) would be saved because some central overheads vary with sales. For example, if unit sales fall warehouse picking costs will also decline. If store numbers reduce then window display costs will also fall.
2. Some central costs (such as Product, Finance, General Management and HR) are **shared with Directory**. If our business continues to move online, then an increasing percentage of Retail's overheads will be paid for by Directory. We estimate that if Directory sales can continue to make up for losses in Retail (i.e. Brand sales remain flat), then a further £52m of Retail costs will be absorbed by Directory.
3. There are other **cost-saving initiatives** we can take over the next ten years that could reduce some of the 'fixed' element of our central overheads. For example, as and when our Retail depots' leases come up for renewal, we could choose to downsize or consolidate these Retail hubs. We estimate these types of initiative would save a further £13m.

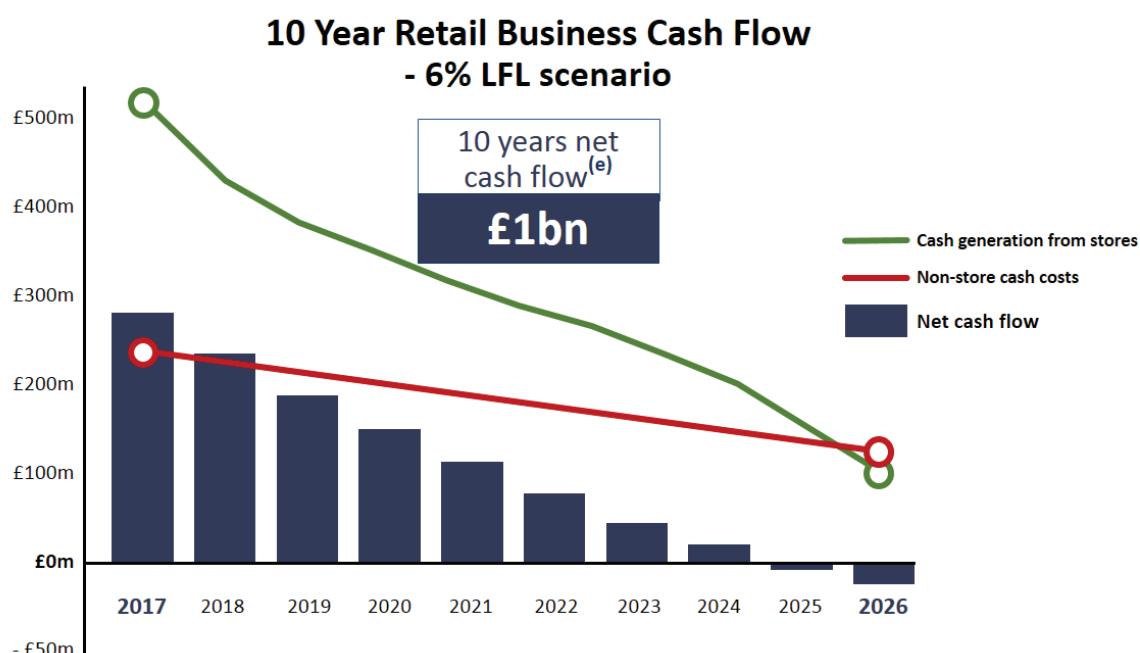
The tables below set out our estimates as to how central costs are likely to vary in the worst case scenario. The lower table shows the costs indexed to 100%.

Category (£m)	2017	Variable	Shared	Further cost savings	Costs at sales of -57%
Marketing	40	- 13	- 3	- 1	23
Warehousing	50	- 15	- 13	- 4	18
Distribution	60	- 17	- 11	- 6	26
Systems, Product, other	80	0	- 25	- 2	53
TOTAL	230	- 45	- 52	- 13	120

Costs indexed to 100%		Variable	Shared	Further cost savings	Costs at sales of -57%
Marketing	100%	- 32%	- 8%	- 2%	58%
Warehousing	100%	- 30%	- 26%	- 8%	36%
Distribution	100%	- 28%	- 18%	- 10%	44%
Systems, Product, other	100%	0%	- 31%	- 3%	66%
TOTAL	100%	- 20%	- 22%	- 6%	52%

¹⁰ Cash costs are all central overhead costs excluding depreciation.

The graph below models cash flows for the worst case -6% scenario. Cash flow from our branches is shown in green, Retail central costs in red and the net cash flow from the Retail business is represented by the blue bars. The model shows the Retail business generating around £1bn of cash over ten years; the equivalent figure for the best case (-2% like-for-like sales) would be around £2bn.



Other Factors Mitigating Lost Retail Sales

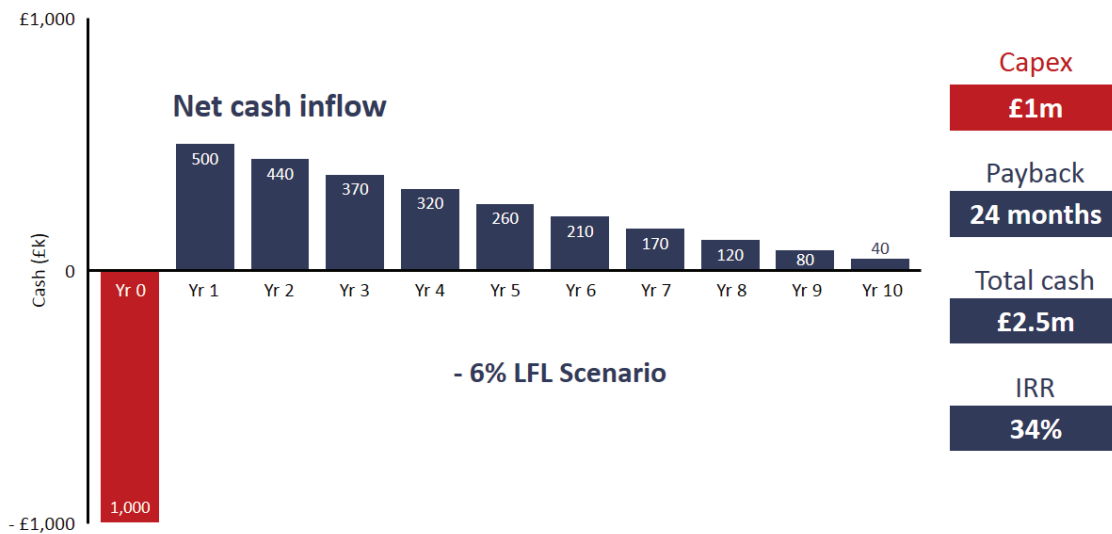
Even in this pessimistic scenario, it is likely the Retail business would generate more than £1bn of cash. In reality, it should be more than that because two of the assumptions we have made are likely to be wrong. Firstly, we are likely to open some profitable cash generative new space. Secondly, if High Street sales remain so subdued, it is likely that retail rents will decline.

The Logic of Opening New Stores in Today's Retail Environment

It might seem counter-intuitive to open shops if there is to be a prolonged downturn on the High Street. However, we aim to payback capital invested in new stores within twenty four months (assuming flat like-for-like sales), so even in a world of declining like-for-like sales, a new store is likely to generate significantly more cash than we invest in it.

The following graph shows the net branch cash flows for a new store assuming compound annual decline in sales of -6% per annum. It also assumes a cash return on net capital outlay of 50% in year one corresponding to a 24 month payback hurdle. In the example, the initial net branch contribution is 15% of sales which is our hurdle rate for new store openings.

New Store - 10 Year Lease



In the given scenario the internal rate of return on capital invested is a healthy 34%. So, whilst it may be counter-intuitive to open a store that is likely to decline in profitability, it does make good financial sense as long as paybacks and profitability are within our hurdle rates and the lease length is limited to ten years.

Lease Renewals and Concessions

In the scenario model we have assumed no reductions in rent, which seems unlikely given our experience to date. Over the last six months we have renewed eight leases, their combined rent reduced from £2.9m to £2.2m. In addition, we used the opportunity of the lease renewal to take on a number of new concessions within these stores with a combined rental income of £175k. The total effect was to reduce net rent as a percentage of sales in these new stores from 9.5% to 6.5%. The average lease commitment of these renewals was 7 years.

We continue to add concessions to our portfolio and the refit of our Arndale store, Manchester, will give us the opportunity to experiment with several new types of concession including a Prosecco bar, restaurant, hair salon, barbers and children's event space. Whilst the rental income from these concessions is helpful, their main aim is to make our stores a more enjoyable and relevant destination for our customers.

We are delighted to have agreed to a 50:50 joint venture with Gino D'Acampo Restaurants and plan to open two restaurants under the Gino D'Acampo brand. One of these restaurants will be in Arndale, the other will be adjacent to our out of town store in Hull. If these trials are successful we have identified a further 8 NEXT stores where we think a restaurant could be added.

PORTFOLIO PROFITABILITY AND LEASE FLEXIBILITY

Ultimately the reason that our stores are able to withstand such extreme falls in like-for-like sales comes down to two facts. Firstly, we have a store portfolio that is extremely profitable with an average net branch contribution of more than 20%. Secondly, we have a relatively flexible store portfolio with an average lease commitment of seven years. Within ten years 72% of our leases by value will have expired. The combination of high profitability and flexibility gives us the confidence that our store portfolio will be strongly cash generative for many years to come and represents an important financial asset to the Group.

RETAIL SERVICES FOR ONLINE CUSTOMERS

It is important to remember that our Retail stores are demonstrably valued by our online customers for the important services they provide to them. Over fifty per cent of online orders and eighty per cent of returns are fulfilled through our shops. We take no account of this value when assessing the financial value of our shops and it is hard to determine how much these store-based services contribute to the success of NEXT Directory.

Looking forward, we anticipate further opportunities to integrate our Retail stores with our online business to enhance the overall experience our customers have with NEXT.

CONCLUSION

Our portfolio is relatively flexible and 72% of our lease obligations expire within ten years. The portfolio looks set to provide positive cash flow for the foreseeable future and represents a valuable financial asset for the Group, as well as an important part of our online business.

In the medium-term the priorities for our Retail teams will be:

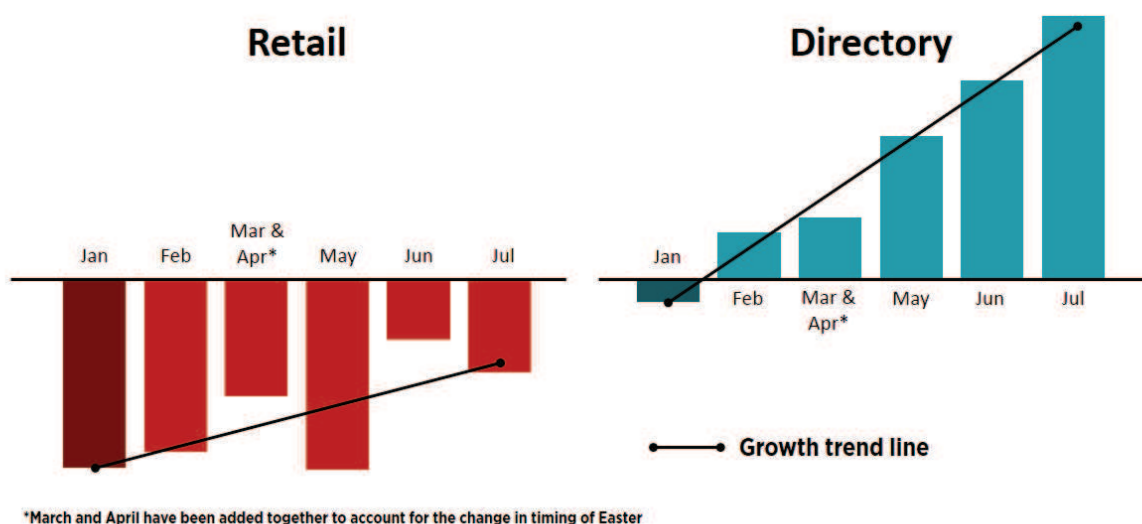
- Managing down the cost base of our stores to match lower levels of retail demand.
- Making our stores relevant in a rapidly changing High Street through adapting our offer and adding concessions that enhance the retail environment.
- Selectively opening new space as long as it meets our long-standing profitability and payback criteria.

THE CHANGING FACE OF NEXT DIRECTORY

Eighteen months ago, at our year end results in March 2016, we acknowledged that our website systems and online marketing had fallen behind best in class. Since then we have executed a programme of improvement to upgrade our systems, marketing and Credit business.

The graph below shows Directory's growth from January through to July alongside the growth in our Retail business. Whilst we believe the overall performance of the second quarter was greatly improved by more seasonal weather, as can be seen on the chart below, the improvement in Directory's performance has been much more marked than in Retail. We believe that, to a large extent, the relative improvement in Directory is the result of the investment we have made in online systems and marketing.

2017 Full Price Sales % Variance vs 2016



The next sections detail the major investments we have made in Directory and some of the improvements we have delivered to the website.

INVESTMENT IN DIRECTORY

At the beginning of the year we said that we intended to invest an additional £11m in improving Directory systems and marketing. That investment is detailed below, divided into software and people.

Investment in Software

The table below sets out some of the key proprietary software packages we have acquired and integrated into our systems, along with a brief description of what they do and their implementation dates.

System	Purpose	Live date
Online Visual Merchandising	Facilitates personalisation and testing of web pages to allow different content to be served to different users.	Jan 17
Analytics & Segmentation	Identifies segments of customers who are more likely to purchase particular products or services.	June 17
Data Management Platform	Uses customer preferences and browsing history to target advertising.	Aug 17
Content Management	Helps create multiple views of our website for multiple customer segments.	Nov 17
New Credit Platform	Allows us to develop, offer and manage new credit services to our customers.	Jan 18
Security and Testing	Improves reliability and security	Ongoing

In total we expect to spend around £5.5m on the purchase and implementation of the above software of which £4.5m will be spent in the current financial year. In accordance with our usual accounting practices we have assumed in our financial forecasts that these will all be charged as revenue expenses.

Although all of the above systems will be live in the current financial year, it will take at least another eighteen months to maximise their potential.

In addition to the above software packages we are also in the process of selecting a new Search Engine which we plan to be operational early next year.

Systems and Marketing Professionals

We have made a significant investment in additional professional staff. The table below sets out the numbers of people we have recruited and their area of expertise, along with the additional annualised cost resulting from their employment.

Area	Numbers
Quality and testing	9
System developers	42
Marketing professionals	21
Content designers	19
User experience (UX) designers	10
Security and other	20
Total additional annual numbers	121
TOTAL ANNUALISED COST	£6.5m

Personalisation

The following table sets out some of the main improvements we have made to personalise our website.

Improvement	Description
Personalised Home Pages	Forty per cent of customers now view Home Pages tailored to their broad areas of interest. The results have been encouraging with those customers viewing personalised Home Pages increasing their sales by circa +1%.
Intelligent Recommendations	We have had success promoting other items customers might also like at the point they view a selected item.
Shopping Bags Across Devices	Customers can now view shopping bags across all their devices (as long as they are logged in or recognised).
Abandoned Baskets	Abandoned baskets are saved on-site for returning customers and promoted by email and through social media.
Save for Later	Customers are now able to move items from their shopping bag to a 'save for later' list.

Although these improvements are delivering measurable benefits, our current levels of customer segmentation and personalisation are still very basic. There is much more that can be done to make better use of customer data and our new content management systems. Over the next eighteen months we plan to deliver progressively more comprehensive segmentation of our customer base and increase the variety of website experiences depending on customer profile.

Mobile devices and site navigation

At the beginning of the year we started to roll out our mobile site across UK based handsets, a process that was fully implemented in the UK by February 2017. Conversion rates (the number of those making a purchase as a percentage of those viewing the site) has steadily risen over the last 18 months from 4.2% to 5.3%, an improvement of 26%.

We have started to roll out our mobile site across our twelve largest overseas territories, which between them represent 53% of our Directory overseas turnover. This process will be complete within the next two months. Once these sites are complete we will move on to other smaller territories.

In terms of site navigation, the main task in the second half of the year is to streamline the check-out and registration processes on both our mobile and desktop sites.

Online Marketing

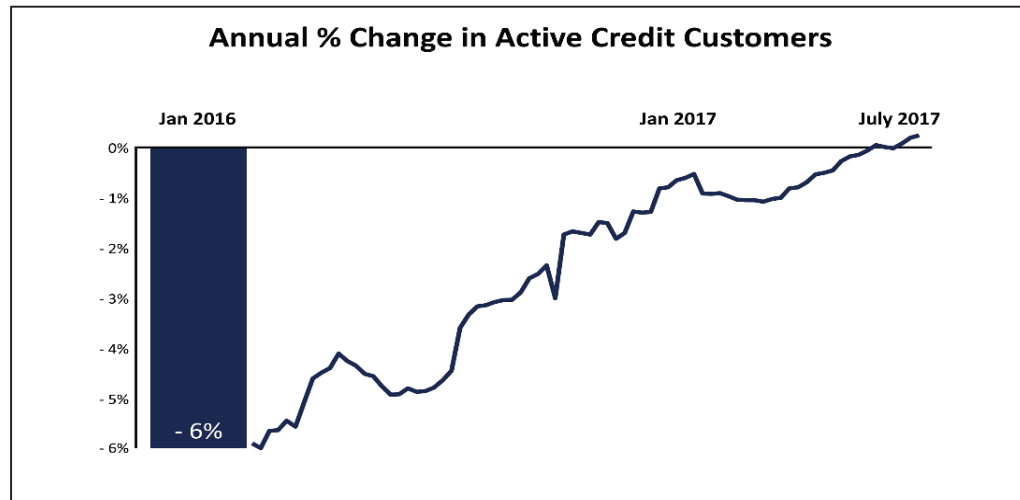
We have begun to run programmes of personalised emails (such as emails reminding people of their abandoned bags) and have implemented some basic segmentation of our weekly promotional email. We have also experimented with a limited amount of targeted advertising on third-party websites. In all cases the results have been encouraging but there is much more that we can do going forward. Over the coming six months we aim to:

- Increase levels of segmentation and levels of personalised content for our weekly email campaigns.
- Trial and improve advertising based upon customers' recent browsing and shopping history.
- Increase volumes of personalised advertising on social media and third-party websites.
- Improve our use of social media and the opportunities it gives NEXT to recruit new customers.
- Further refine our book and brochure distribution to ensure that marketing spend is correctly balanced between online advertising and traditional print-based promotion.

NEW DIRECTORY SERVICES

NextPay

In September last year we significantly increased the levels of investment in marketing our credit offer and in February 2017 we re-launched our NEXT Credit Account as NextPay. The combined effect has been significant; in January 2016 our credit customer base was down -6% on the previous year, by the end of July this year it was broadly flat.



It remains to be seen whether we will be able to improve or even maintain the stability we have achieved. We believe it will be harder to sustain this improvement as we approach the anniversary of our marketing drive and come up against tougher comparisons. We will have a better understanding of the long-term outlook for our Credit business in six months' time. Towards the end of this year we plan to launch at least one new credit offer.

NextUnlimited

NextUnlimited allows our customers to pay an upfront fee of £20 for one year's unlimited next day delivery to homes in the UK. This service has proved popular and now accounts for more than 10% of our orders. We estimate that the net cost of providing NextUnlimited deliveries will be around £5m in the current year but this will be more than offset by the profit on the incremental sales generated.



PART 3 – OUTLOOK AND GUIDANCE

CONSUMER ENVIRONMENT

The consumer environment remains little changed from six months ago. Real incomes look set to decline by around 1% for at least another six months and perhaps into next year. This drop in real earnings may be partially offset by the continued growth of employment in the UK. The sectorial shift away from clothing into experienced-based spending is still apparent, though there is no evidence that this trend is accelerating.

OUTLOOK FOR SALES

The last three months have given us some encouragement that our ranges are improving, but the weather has been in our favour and the comparative numbers last year were very poor. We now expect full price sales for the second half to be in the range of -2.8% to +3.8% and consequently, marginally upgrade our full year full price sales range to -2.0% to +1.5%. (August guidance range was -3.0% to +0.5%, May was -3.5% to +0.5%).

We take this opportunity to point out that year-on-year sales growth in the third quarter is likely to be stronger than the fourth quarter. This guidance might seem at odds with our expectation that product ranges will improve as we go into the fourth quarter. The reason for the apparent contradiction is that the third quarter last year was very poor, down -3.5% on 2015, whereas the Christmas trading period was down only -0.4%.

OUTLOOK FOR PROFITS

Our full price sales guidance edged forward in August and again today, these sales improvements combined and additional unbudgeted cost savings would have added £26m to our full year profit. However, this gain has been partially offset by poorer clearance rates in the Summer Sale, costing £11m, and anticipated poorer clearance rates in the Winter Sale, forecast to cost £8m.

The combined effect is that the mid-point of our profit guidance now moves up by £7m to £717m. The table below sets out our latest sales and profit guidance.

Full year estimates Year to January 2018	New guidance		Previous guidance	
	Lower	Upper	Lower	Upper
Total full price sales growth (inc. currency gain)	- 2.0%	+1.5%	-3.0%	+0.5%
Group profit before tax	£687m	£747m	£680m	£740m
Change in profit before tax versus 2016/17	- 13.1%	- 5.5%	-13.9%	-6.4%
Earnings Per Share versus 2016/17	- 10.9%	-3.1%	-11.8%¹¹	-4.0%

¹¹ Please note EPS growth was not included in our August Trading Statement and has been included here for completeness.

SUMMARY

The wider economic environment, clothing market and High Street look as challenging as ever, and we do not underestimate the task of managing our stores through a period of prolonged negative like-for-like sales. Nonetheless, we believe our stores will remain cash generative for many years to come and represent an important asset for the Group.

While the external environment looks set to remain difficult, from where we stand today our prospects going forward appear somewhat less challenging than they did six months ago. We have seen the benefits of product improvements begin to work their way through into our Autumn ranges and the medium-term outlook for pricing looks more benign, with price inflation set to moderate to just +2% in the first half of next year and to 0% in the second half. The programmes of improvement we have made to our Directory business are beginning to bear fruit and our two new and developing businesses, LABEL and Directory overseas, continue to deliver healthy levels of growth.

We look set to generate around £53m of surplus cash over and above the £257m that we intend to distribute by way of special dividends. We now anticipate that this additional cash is likely to be returned to shareholders through share buybacks at some point during the second half, subject to the prevailing share price and market conditions.

Lord Wolfson of Aspley Guise

Chief Executive

14 September 2017

THIRD QUARTER TRADING UPDATE

Our next Trading Statement will cover the thirteen weeks to 28 October 2017 and is scheduled for Wednesday 1 November 2017.

UNAUDITED CONSOLIDATED INCOME STATEMENT

	26 weeks to 29 July 2017 £m	26 weeks to 30 July 2016 £m
Continuing operations		
Revenue	1,887.6	1,939.7
Cost of sales	(1,285.4)	(1,307.5)
Gross profit	602.2	632.2
Distribution costs	(169.6)	(169.0)
Administrative expenses	(107.8)	(103.3)
Unrealised foreign exchange losses	(0.1)	-
Trading profit	324.7	359.9
Share of results of associates	0.5	0.6
Operating profit	325.2	360.5
Finance income	1.1	0.1
Finance costs	(16.9)	(18.5)
Profit before taxation	309.4	342.1
Taxation (Note 4)	(57.2)	(68.6)
Profit for the period attributable to equity holders of the parent company	252.2	273.5

	26 weeks to 29 July 2017	26 weeks to 30 July 2016
Earnings Per Share (Note 5)		
Basic	176.9p	188.6p
Diluted	176.5p	187.1p

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	26 weeks to 29 July 2017 £m	26 weeks to 30 July 2016 £m
Profit for the period	252.2	273.5
Other comprehensive income and expenses:		
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial gains/(losses) on defined benefit pension scheme	5.6	(77.8)
Tax relating to items which will not be reclassified	(1.0)	15.6
<i>Subtotal items that will not be reclassified</i>	4.6	(62.2)
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	4.7	0.8
Foreign currency cash flow hedges:		
- fair value movements	(57.8)	49.3
- reclassified to the income statement	1.3	(16.6)
- recognised in inventories	1.8	(22.1)
Tax relating to items which may be reclassified	9.3	(2.1)
<i>Subtotal items that may be reclassified</i>	(40.7)	9.3
Other comprehensive expense for the period	(36.1)	(52.9)
Total comprehensive income for the period	216.1	220.6

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	29 July 2017 £m	30 July 2016 £m	28 Jan 2017 £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		569.5	555.1	578.6
Intangible assets		43.1	43.5	43.3
Interests in associates and other investments		2.1	2.1	2.1
Defined benefit pension asset		65.0	-	62.9
Other financial assets	7	70.4	92.5	57.3
Deferred tax assets		5.3	5.3	-
		755.4	698.5	744.2
Current assets				
Inventories		492.6	490.9	451.1
Assets under construction		-	3.2	-
Customer and other receivables		1,125.6	1,077.2	1,125.8
Other financial assets	7	1.4	53.6	34.0
Cash and short term deposits		185.0	144.9	49.7
		1,804.6	1,769.8	1,660.6
Total assets		2,560.0	2,468.3	2,404.8
Current liabilities				
Bank loans and overdrafts		(3.2)	(3.7)	(35.3)
Corporate bonds	8	-	(213.0)	-
Trade payables and other liabilities		(634.7)	(631.6)	(615.8)
Dividends payable	6	(213.3)	(150.3)	-
Other financial liabilities	7	(29.0)	(4.8)	(3.2)
Current tax liabilities		(82.1)	(64.7)	(70.7)
		(962.3)	(1,068.1)	(725.0)
Non-current liabilities				
Corporate bonds	8	(915.9)	(934.0)	(913.5)
Defined benefit pension liability		-	(35.0)	-
Provisions		(6.9)	(7.1)	(6.7)
Other financial liabilities	7	(20.1)	(20.2)	(16.5)
Other liabilities	9	(224.7)	(218.3)	(226.9)
Deferred tax liabilities		-	-	(5.7)
		(1,167.6)	(1,214.6)	(1,169.3)
Total liabilities		(2,129.9)	(2,282.7)	(1,894.3)
NET ASSETS		430.1	185.6	510.5
TOTAL EQUITY		430.1	185.6	510.5

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Fair value reserve £m	Foreign currency translation £m	Other reserves £m	Retained earnings £m	Total equity £m
At 28 January 2017	14.7	0.9	15.2	(215.4)	26.2	(4.5)	(1,443.8)	2,117.2	510.5
Profit for the period	-	-	-	-	-	-	-	252.2	252.2
Other comprehensive (expense)/income for the period	-	-	-	-	(45.4)	4.7	-	4.6	(36.1)
Total comprehensive (expense)/income for the period	-	-	-	-	(45.4)	4.7	-	256.8	216.1
Share buybacks and commitments	-	-	-	-	-	-	-	-	-
ESOT share purchases	-	-	-	(30.0)	-	-	-	-	(30.0)
Shares issued by ESOT	-	-	-	12.2	-	-	-	(7.7)	4.5
Share option charge	-	-	-	-	-	-	-	7.1	7.1
Tax recognised directly in equity	-	-	-	-	-	-	-	(0.5)	(0.5)
Equity dividends (Note 6)	-	-	-	-	-	-	-	(277.6)	(277.6)
At 29 July 2017	14.7	0.9	15.2	(233.2)	(19.2)	0.2	(1,443.8)	2,095.3	430.1
At 30 January 2016	15.1	0.9	14.8	(208.7)	29.4	(4.8)	(1,443.8)	1,908.9	311.8
Profit for the period	-	-	-	-	-	-	-	273.5	273.5
Other comprehensive income/(expense) for the period	-	-	-	-	8.5	0.9	-	(62.3)	(52.9)
Total comprehensive income for the period	-	-	-	-	8.5	0.9	-	211.2	220.6
Share buybacks and commitments	(0.4)	-	0.4	-	-	-	-	(175.9)	(175.9)
ESOT share purchases	-	-	-	(28.1)	-	-	-	-	(28.1)
Shares issued by ESOT	-	-	-	20.3	-	-	-	(7.0)	13.3
Share option charge	-	-	-	-	-	-	-	6.3	6.3
Tax recognised directly in equity	-	-	-	-	-	-	-	(12.1)	(12.1)
Equity dividends (Note 6)	-	-	-	-	-	-	-	(150.3)	(150.3)
At 30 July 2016	14.7	0.9	15.2	(216.5)	37.9	(3.9)	(1,443.8)	1,781.1	185.6

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 29 July 2017 £m	26 weeks to 30 July 2016 £m
<i>Cash flows from operating activities</i>		
Operating profit	325.2	360.5
Depreciation, impairment and disposal of property, plant and equipment	63.0	57.9
Amortisation of intangible assets	0.2	0.2
Share option charge less amounts settled in cash	7.1	6.3
Exchange movement	4.6	0.8
Increase in inventories and assets under construction	(41.5)	(7.6)
Increase in customer and other receivables	(1.7)	(24.7)
Increase/(decrease) in trade and other payables	9.0	(59.0)
Net pension contributions less income statement charge	3.5	3.2
Cash generated from operations	369.4	337.6
Corporation taxes paid	(47.5)	(71.1)
Net cash from operating activities	321.9	266.5
<i>Cash flows from investing activities</i>		
Additions to property, plant and equipment	(54.3)	(77.0)
Movement in capital accruals	2.1	1.7
Payments to acquire property, plant and equipment	(52.2)	(75.3)
Proceeds from sale of property, plant and equipment	0.3	0.6
Net cash from investing activities	(51.9)	(74.7)
<i>Cash flows from financing activities</i>		
Repurchase of own shares	-	(175.9)
Purchase of shares by ESOT	(30.0)	(28.1)
Disposal of shares by ESOT	5.3	12.9
Issue of corporate bond	-	297.3
Repayment of unsecured bank loans	-	(115.0)
Interest paid	(14.2)	(7.0)
Interest received	1.1	0.1
Dividends paid (Note 6)	(64.3)	(88.3)
Net cash from financing activities	(102.1)	(104.0)
Net increase in cash and cash equivalents	167.9	87.8
Opening cash and cash equivalents	14.4	52.7
Effect of exchange rate fluctuations on cash held	(0.5)	0.7
Closing cash and cash equivalents (Note 10)	181.8	141.2

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The Group's interim results for the 26 weeks to 29 July 2017 (prior year 26 weeks to 30 July 2016) were approved by the Board of Directors on 14 September 2017 and have been prepared in accordance with IAS 34 '*Interim Financial Reporting*', as adopted by the European Union.

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 52 weeks ended 28 January 2017. 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. Where applicable, disclosures required by paragraph 16A of IAS 34 are given either in these interim financial statements or in the accompanying Chief Executive's Review.

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 is condensed and does not constitute statutory accounts of the Group within the meaning of Section 434(3) of the Companies Act 2006. Statutory accounts for the 52 weeks to January 2017 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 are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

2. Risks and uncertainties

The Board has considered the principal risks and uncertainties for the remaining half of the financial year and determined that the risks presented in the 2017 Annual Report, described as follows, also remain relevant to the rest of the financial year: Business strategy development and implementation; Management team; Product design and selection; Key suppliers and supply chain management; Warehousing and distribution; Customer experience; Retail store network; Information security, business continuity and cyber risk; Financial, treasury, liquidity and credit risks. These are detailed on pages 30 to 34 of the 2017 Annual Report, a copy of which is available on the Company's website at www.nextplc.co.uk.

3. Segmental analysis

The Group's operating segments have been determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Board. The performance of operating segments is assessed on profits before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 '*Share-Based Payment*' and unrealised foreign exchange gains or losses on derivatives which do not qualify for hedge accounting. The activities, products and services of the operating segments are detailed on page 26 of the 2017 Annual Report. The Property Management segment holds properties and property leases which are sublet to other segments and external parties. The NEXT International Retail segment comprises franchise and wholly owned stores overseas. International online sales are included in the NEXT Directory segment.

Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. Total sales represents the amount payable by the customer, excluding VAT.

Segment sales and revenue

26 weeks to 29 July 2017	Total sales excluding VAT £m	Commission sales adjustment £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	993.2	(0.1)	993.1	2.3	995.4
NEXT Directory	868.4	(25.5)	842.9	-	842.9
NEXT International Retail	32.6	-	32.6	-	32.6
NEXT Sourcing	3.2	-	3.2	271.6	274.8
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,897.4	(25.6)	1,871.8	273.9	2,145.7
Lipsy	12.1	(0.8)	11.3	20.8	32.1
Property Management	4.5	-	4.5	103.4	107.9
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Total segment sales/revenues	1,914.0	(26.4)	1,887.6	398.1	2,285.7
Eliminations	-	-	-	(398.1)	(398.1)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,914.0	(26.4)	1,887.6	-	1,887.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
26 weeks to 30 July 2016	Total sales excluding VAT £m	Commission sales adjustment £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	1,083.6	(2.2)	1,081.4	2.6	1,084.0
NEXT Directory	821.2	(14.3)	806.9	-	806.9
NEXT International Retail	32.1	-	32.1	-	32.1
NEXT Sourcing	2.5	-	2.5	297.3	299.8
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,939.4	(16.5)	1,922.9	299.9	2,222.8
Lipsy	14.1	(0.9)	13.2	15.9	29.1
Property Management	3.6	-	3.6	103.0	106.6
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total segment sales/revenues	1,957.1	(17.4)	1,939.7	418.8	2,358.5
Eliminations	-	-	-	(418.8)	(418.8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,957.1	(17.4)	1,939.7	-	1,939.7
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

3. Segmental analysis (continued)

	26 weeks to 29 July 2017 £m	26 weeks to 30 July 2016 £m
Segment profit		
NEXT Retail	89.5	133.9
NEXT Directory	217.1	204.2
NEXT International Retail	4.1	4.2
NEXT Sourcing	16.1	21.8
	<hr/>	<hr/>
	326.8	364.1
Lipsy	3.1	2.8
Property Management	2.9	3.0
	<hr/>	<hr/>
Total segment profit	332.8	369.9
Central costs and other	(0.7)	(3.7)
Share option charge	(7.3)	(6.3)
Unrealised foreign exchange losses	(0.1)	-
	<hr/>	<hr/>
Trading profit	324.7	359.9
Share of results of associates	0.5	0.6
Finance income	1.1	0.1
Finance costs	(16.9)	(18.5)
	<hr/>	<hr/>
Profit before tax	309.4	342.1
	<hr/>	<hr/>

4. Taxation

Income tax expense is recognised based on management's best estimate of the full year effective tax rate based on estimated full year profits. The cash flow statement includes a repayment from HMRC in 2017 of £24.6m relating to overpaid corporation tax attributable to prior years.

5. Earnings Per Share

	26 weeks to 29 July 2017	26 weeks to 30 July 2016
Basic Earnings Per Share	176.9p	188.6p
Diluted Earnings Per Share	176.5p	187.1p

Basic Earnings Per Share (EPS) is based on the profit for the period attributable to the equity holders of the Parent Company divided by the net of 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 calculated by adjusting 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 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. Their dilutive effect is calculated on the basis of the equivalent number of nil cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. In the current period, there were 5.3m non-dilutive share options which were excluded from the diluted EPS calculation (2016: 2.3m).

The table below shows the key variables used in the Earnings Per Share calculations:

	26 weeks to 29 July 2017 £m	26 weeks to 30 July 2016 £m
Profit after tax attributable to equity holders of the Parent Company	252.2	273.5
Weighted average number of shares (millions):		
Weighted average shares in issue	147.0	149.3
Weighted average shares held by ESOT	(4.5)	(4.3)
Weighted average shares for basic EPS	142.5	145.0
Weighted average dilutive potential shares	0.3	1.2
Weighted average shares for diluted EPS	142.8	146.2

6. Dividends

It is intended that this year's ordinary interim dividend of 53p per share will be paid to shareholders on 2 January 2018. NEXT plc shares will trade ex-dividend from 7 December 2017 and the record date will be 8 December 2017. Dividends paid or declared during the period were as follows:

26 weeks to 29 July 2017

	Paid	Pence per share	Cash flow statement £m	Statement of changes in equity £m	July 2017 balance sheet £m
Special interim dividend	2 May 2017	45p	64.3	64.3	-
Special interim dividend	1 Aug 2017	45p	-	64.0	64.0
Ordinary final dividend for year to Jan 2017	1 Aug 2017	105p	-	149.3	149.3
			64.3	277.6	213.3

26 weeks to 30 July 2016

	Paid	Pence per share	Cash flow statement £m	Statement of changes in equity £m	July 2016 balance sheet £m
Special interim dividend	1 Feb 2016	60p	88.3	-	-
Ordinary final dividend for year to Jan 2016	1 Aug 2016	105p	-	150.3	150.3
			88.3	150.3	150.3

On 3 August 2017 the Group announced that a third special dividend of 45p per share will be paid on 1 November 2017 to shareholders registered at the close of business on 6 October 2017. Shares will trade ex-dividend from 5 October 2017.

7. Other financial assets and liabilities

Other financial assets and other financial liabilities include the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks. All derivatives are categorised as Level 2 under the requirements of IFRS 13, as they are valued using techniques based significantly on observed market data.

8. Corporate bonds

The table below shows the nominal and balance sheet values of the Group's outstanding corporate bonds.

	Nominal value			Balance sheet value		
	29 July 2017 £m	30 July 2016 £m	28 Jan 2017 £m	29 July 2017 £m	30 July 2016 £m	28 Jan 2017 £m
Corporate bond 5.875% repayable Oct 2016	-	212.6	-	-	213.0	-
Corporate bond 5.375% repayable Oct 2021	325.0	325.0	325.0	329.4	331.6	329.5
Corporate bond 4.375% repayable Oct 2026	250.0	250.0	250.0	286.5	302.4	284.0
Corporate bond 3.625% repayable May 2028	300.0	300.0	300.0	300.0	300.0	300.0
	875.0	1,087.6	875.0	915.9	1,147.0	913.5
<i>Classified as:</i>						
Current liabilities				-	213.0	-
Non-current liabilities				915.9	934.0	913.5
				915.9	1,147.0	913.5

As explained in the January 2017 Annual Report, the Group uses interest rate derivatives to manage part of the interest rate risk associated with its corporate bonds, whereby the carrying value of the relevant bonds is adjusted for changes in fair value attributable to the hedged risk. At July 2017, the fair value of the Group's corporate bonds was £980.4m (July 2016: £1,200.6m, January 2017: £959.8m). The fair values are market values at the balance sheet date (IFRS 13 Level 1).

9. Other non-current liabilities

Other non-current liabilities relate primarily to the long term element of property lease incentives received which will be credited to the income statement more than one year from the balance sheet date.

10. Analysis of net debt

	28 Jan 2017 £m	Cash flow £m	Other non-cash changes £m	29 July 2017 £m
Cash and short term deposits	49.7			185.0
Overdrafts and short term borrowings	(35.3)			(3.2)
Cash and cash equivalents	<u>14.4</u>	<u>167.9</u>	<u>(0.5)</u>	<u>181.8</u>
Corporate bonds	(913.5)	-	(2.4)	(915.9)
Fair value hedges of corporate bonds	38.6	-	3.1	41.7
Total net debt	<u>(860.5)</u>	<u>167.9</u>	<u>0.2</u>	<u>(692.4)</u>

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 '*Interim Financial Reporting*';
- 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 of Aspley Guise
Chief Executive

Amanda James
Group Finance Director

14 September 2017

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 2 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.