

next plc

Results for the Half Year Ending July 2019

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FINANCIAL HEADLINES

NEXT Brand full price sales¹ were up **+4.3%** and Brand total sales² (including markdown sales) were up **+3.8%** on last year. Group profit before tax was up **+2.7%** and Earnings Per Share (EPS) were up **+7.5%** on last year. We are declaring an ordinary interim dividend of 57.5p per share, which is up +4.5% on last year. We are maintaining our guidance for the full year, as set out in our July Trading Statement, for profit before tax to be £725m (up +0.3% on last year) and EPS growth to be up +5.2% (page 45).

TOTAL SALES £m	July 2019	July 2018	
Retail	874.3	925.1	- 5.5%
Online	1,004.9	892.3	+12.6%
Finance	134.0	122.0	+9.9%
Brand	2,013.2	1,939.4	+3.8%
Other ³	45.6	46.8	
Total Group sales	2,058.8	1,986.2	+3.7%

PROFIT £m and EPS (excluding IFRS 16)	July 2019	July 2018	
Retail	56.0	73.2	- 23.5%
Online	177.1	163.3	+8.4%
Finance (after funding costs) ⁴	75.8	60.9	+24.6%
Brand	308.9	297.4	+3.9%
Other ⁵	14.2	16.3	
Recharge of interest to Finance ⁴	17.8	16.8	
Operating profit	340.9	330.5	+3.1%
Net external interest	(21.3)	(19.4)	
Profit before tax	319.6	311.1	+2.7%
Taxation	(59.1)	(56.9)	
Profit after tax	260.5	254.2	
Earnings Per Share	199.5p	185.6p	+7.5%
Ordinary dividends per share	57.5p	55.0p	+4.5%

Statutory sales were up +2.7% and profit before tax, including the effect of IFRS 16, was up +4.0%.

STATUTORY BASIS £m and EPS	July 2019	July 2018	
Sales	2,014.5	1,961.9	+2.7%
Profit before tax	327.4	314.9	+4.0%
Profit after tax	266.9	257.3	+3.9%
Earnings Per Share	204.4p	187.9p	+8.8%

The financial information in pages 4 – 47 do not reflect the impact of IFRS 16, Leases. The impact of IFRS 16 is provided in Appendix 1 page 48 and Note 17 of the Financial Statements.

¹ Full price sales are VAT exclusive sales, excluding items sold in our mid-season, end-of-season Sale events and our Clearance operations.

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

³ Other sales includes: NEXT Sourcing external sales, Franchise and Lipsy non-NEXT business.

⁴ Finance profit for the half year to July 2018 has been restated to reflect a change in treatment of funding costs. See page 32.

⁵ Other profit includes NEXT sourcing, franchise and Lipsy.

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CHIEF EXECUTIVE'S REVIEW - OVERVIEW

THE LONG VIEW – A REPRISE

In March this year, in our full year results, we set out our approach to managing NEXT through the profound changes in the UK retail landscape. The main points are briefly summarised in the paragraphs below.

It's About Choice

In our view, the online shopping revolution is not just about home delivery or even price, it is about the explosion in choice it gives consumers. Online retailers can deliver goods nationwide with a relatively small quantity of each item held in one central location. In addition, the barriers to entry for new fashion brands have never been lower. In today's world, new brands can sell their products through third-party websites (such as NEXT's LABEL) without any investment in expensive retail, warehouse or online infrastructure.

The result is that customers, in every corner of the country, can now access a choice of goods, breadth of sizes and selection of brands that no single High Street could ever contain. However uncomfortable this change may be, it is important to keep in mind that ultimately it is great for the consumer and so in the long run it should be good for our industry. Whatever happens to the High Street, the people walking down it will be wearing clothes and will continue to decorate and furnish their homes. If NEXT is to thrive in this new online world we must continue to evolve.

The NEXT Online Platform

Over the last five years we have radically changed the way we do business. We have developed our warehousing, returns centres, stores, website, marketing, customer base and consumer credit business to create an Online Platform. The Platform is focussed on the specific operational complexities of selling clothing and homeware online; in particular the challenges involved in consolidating deliveries and handling returns.

We have leveraged this Platform to build a £500m aggregation business selling hundreds of third-party brands alongside our own NEXT branded merchandise. In doing so, we have accepted and embraced the challenge of competing against ourselves as the price we pay for developing a leading aggregation business.

Our objectives for the NEXT Platform are simple:

- (1) To be our customers' **first choice** online destination for clothing and homeware
- (2) To be our partner brands' **most profitable** third-party route to market
- (3) To deliver a level of **service and integrity** that matches the aspirations of our own brand and those of our partners

The achievement of these aims requires operational excellence, innovation and rigorous cost control. Much of this document focuses on the efforts we are making to improve, develop, control and scale our operations.

The NEXT Brand Overseas

Just as new brands have challenged NEXT's incumbency in the UK, we are now challenging and enhancing traditional retail landscapes overseas. In overseas markets, we are the new kid on the block. We are selling through our own website and through overseas third-party aggregators.

The Changing Shape of The NEXT Group

The following table demonstrates just how much the business has changed since 2015; most importantly we now take more than 50% of sales Online and through our associated Finance business.

Group Sales by Channel	Jan 2015	Jan 2020 ^(e)	Online Sales by Brand	Jan 2015	Jan 2020 ^(e)	Online by Location	Jan 2015	Jan 2020 ^(e)
Retail	60%	43%	NEXT	89%	76%	UK	89%	81%
Online/Finance	40%	57%	Third-parties	11%	24%	Overseas	11%	19%
Total	100%	100%	Total	100%	100%	Total	100%	100%

The Role of Retail Shops in an Online World

In terms of Retail stores, the situation is not quite as one way as it might first appear. Fifty per cent of Online orders are delivered to our stores. For some customers, home delivery is inconvenient; others prefer to avoid the £3.99 cost of home delivery (store deliveries are free). Returns are a central part of our Online service and 82% of returns come back through our stores. It is counter-intuitive, but the fact is stores have become an important part of our Online service, though their rents are way out of kilter with the value they provide as collection and returns centres. So, if stores are to remain open, Retail rents must fall and fortunately that is exactly what they are doing.

Long-Term Foundations – The Fifteen-Year Stress Test

In March we provided details of a fifteen-year financial scenario. In simple terms, it modelled how the cash flow of the Group might perform if:

- Retail like-for-like sales declined every year by -10%
- Rents declined by a compound rate of -5%
- Online sales grew at a compound average growth rate of +7.5%

In this scenario we calculated that the business would generate around £12bn of cash⁶ over the next fifteen years, with cash generation in the final year being in the order of £1.1bn. Of course, no one has a crystal ball, and the world is very unlikely to turn out exactly in line with our model. Nonetheless, the model is important because it proves that the underlying economic structure of the Group is such that, with a reasonable set of assumptions, it can withstand a prolonged and severe downturn in Retail sales. The relatively short unexpired lease term of our portfolio gives us the flexibility to re-negotiate and restructure our store portfolio. Fifty per cent of our lease commitments will expire within 4.9 years.

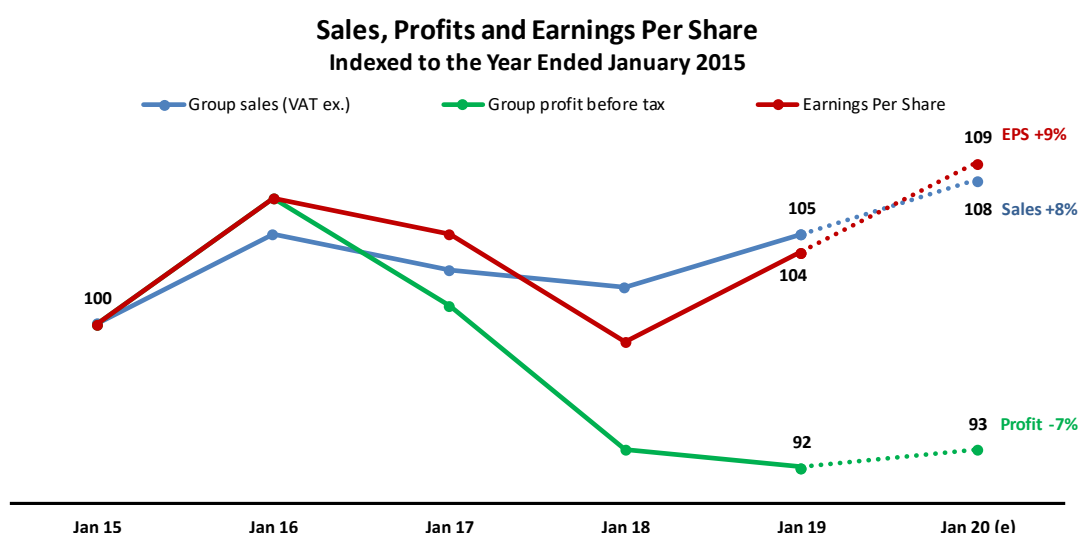
⁶ Cash generation is defined here as EBITDA (earnings before interest, tax, interest, depreciation and amortisation), less capital expenditure and growth in working capital.

The Economic Journey

Throughout the process of transformation, the Group has broadly maintained its sales, but the process has been economically uncomfortable. I remember my dad quipping that a business only discovers its fixed costs when sales decline! In Retail, rents and rates have not yet materially declined with sales. As leases come up for renewal, we are seeing very steep reductions in rent, but the process can only proceed at the rate our leases expire and that will take time. Conversely, Online fixed costs have risen with sales as we have constantly had to invest in new infrastructure, with all the depreciation and occupancy costs that involves. In addition, much of the new online business through third-party brands and overseas comes at a lower margin than our UK NEXT branded business.

The graph below demonstrates the economic effect of the transition on the economics of the Group over five years. Taking our central guidance for the current year, the Company is forecast to have grown sales by 8% since 2015. However, the costs associated with the shift in sales from Retail to Online mean that profits are likely to be 7% lower than five years ago.

On the plus side, capital disciplines have remained central to the management of the Group and the company has remained strongly cash generative. From January 2015 to date, this has enabled NEXT to return £1.7bn to shareholders through special dividends (£685m) and share buybacks (£1.0bn). The earnings enhancement created through share buybacks means that EPS in the year ending January 2020 are likely to be +9% up on five years ago and the highest EPS the Group has delivered.



THE IMPORTANCE OF EXECUTION

So, in theory, we have a robust business model with (1) a potentially powerful UK aggregation Platform and (2) a brand with international reach: a business capable of surviving and thriving in an online world. That is the theory, but theory is not enough; businesses love to talk of ‘strategy’, but they are made or broken by their ability to execute well, particularly when things don’t go exactly to plan (and they never do).

NEXT is no exception to this rule and we spend most of our time making sure that the business continues to be responsive and flexible; that we deliver the products, the new business ideas, operations, systems and infrastructure we need to keep the Company delivering on its core financial mission: the delivery of sustainable growth in EPS.

NEXT ONLINE

HEADLINE NUMBERS

Full price sales grew by +11.9%, with total sales growth (including markdown⁷) of +12.6%. The table below breaks down *full price* sales growth by division.

Full price sales £m	July 2019	July 2018	Var %	Var £m
NEXT Brand UK	469	452	+3.6%	+17
LABEL UK ⁸	199	158	+25.8%	+41
Total UK Online	668	610	+9.3%	+58
Overseas	212	176	+20.7%	+36
Total Online full price sales	880	786	+11.9%	+94

OVERVIEW AND INTRODUCTION TO THIS SECTION

The NEXT Online Platform has continued to deliver strong growth, mainly through LABEL in the UK (page 9) and NEXT Overseas (page 18).

LABEL's growth has benefited from the addition of new brands alongside an increase of choice within existing brands. This proliferation of choice has been further enhanced through the sale of items held by third-party partners in their own warehouses and delivered through our new Platform Plus capability (page 11). Despite the significant increase in competition on the website, NEXT Brand Online sales also grew in the UK.

The growth in our total Online business, and the requirement to handle an increasing choice of unique items, has led to material strain on our warehousing infrastructure (pages 13-15). These strains, along with the rapid expansion of our warehouse workforce, have served to erode operating efficiencies. Stripping out wage inflation, the average cost per unit picked has increased by +10% since 2016.

These growing pains are being vigorously and effectively addressed through a combination of short-term solutions, improved recruitment and training programs and, in the longer term, our five-year warehouse capital investment programme (pages 15-16). In addition, we have overhauled our store returns procedure to improve stock availability Online (page 17).

As we move into next year, we hope to benefit from the operating efficiencies these initiatives can deliver. In the longer term, growth in Online sales will come with the risk of diseconomies of scale inherent in offering a wider choice of products (page 16). So, capital investment is likely to maintain rather than improve warehouse and logistic operating efficiencies.

Our Online business remains highly profitable with a net margin of 17.6% in the first half (page 21). This margin is lower than last year, mainly as a result of the growth in our LABEL and Overseas businesses, both of which have lower operating net margins than our NEXT branded UK Online business.

⁷ Markdown sales were up +18.0%; this includes Clearance offers and all Sale events up to the half year end date.

⁸ Our Home Branded business continues to grow and is becoming a meaningful part of our LABEL business. As a result, some longstanding third-party brands sold in our Home division, historically reported within NEXT, have been reclassified from NEXT Brand UK to LABEL UK. In the half year to July 2018, this increased LABEL UK full price sales and reduced NEXT Brand UK by £6m.

THE NEXT ONLINE PLATFORM

The NEXT Online Platform is the backbone of our online business. It brings together our various Online and Retail assets into one integrated network.

Over the last few years we have developed systems to allow the fulfilment of orders from stock held at any point in the network, either to our customers' homes or delivered for collection to our Retail stores. The assets we have brought to bear are set out in the table below.

Stores	499 stores, of which 492 receive next-day deliveries for Online orders, seven days a week.
Warehousing	Eight UK warehouses occupying 6.7m square feet, seven depots and two overseas warehouses (Russia and Germany).
Logistics	500 NEXT fleet vehicles along with one major UK third-party 'last mile' logistics network of 15,000 couriers and ten overseas third-party delivery networks.
Systems	Most systems are designed and built internally. Over 800 systems professionals, of which 550 are developers, delivering website, warehouse, retail, marketing, product, finance and HR systems.
Contact Centres	Five contact centres, employing over 2,000 people (three in the UK, one in Russia and one third-party contact and administration centre in India).
UK Customers	4.5 million active customers in the UK.
UK Credit Offer	Flexible nextpay account serving 2.6 million customers.
Overseas Customers	1.3 million active customers overseas.

Customer Base

Average active customers⁹ increased by +13.6% to 5.9m, driven mainly by the growth in Overseas and UK cash customers (those who do not use our nextpay credit account when ordering). The table below sets out the growth in the respective parts of our customer base.

Average active customers (m)	July 2019	July 2018	
UK Credit	2.57	2.52	+1.8%
UK Cash	1.97	1.58	+24.8%
Total UK	4.54	4.10	+10.7%
Overseas Cash	1.34	1.08	+24.6%
Total	5.88	5.18	+13.6%

For further detailed analysis of credit customer growth see pages 29-30.

⁹ Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.

THE DEVELOPMENT OF LABEL (UK)

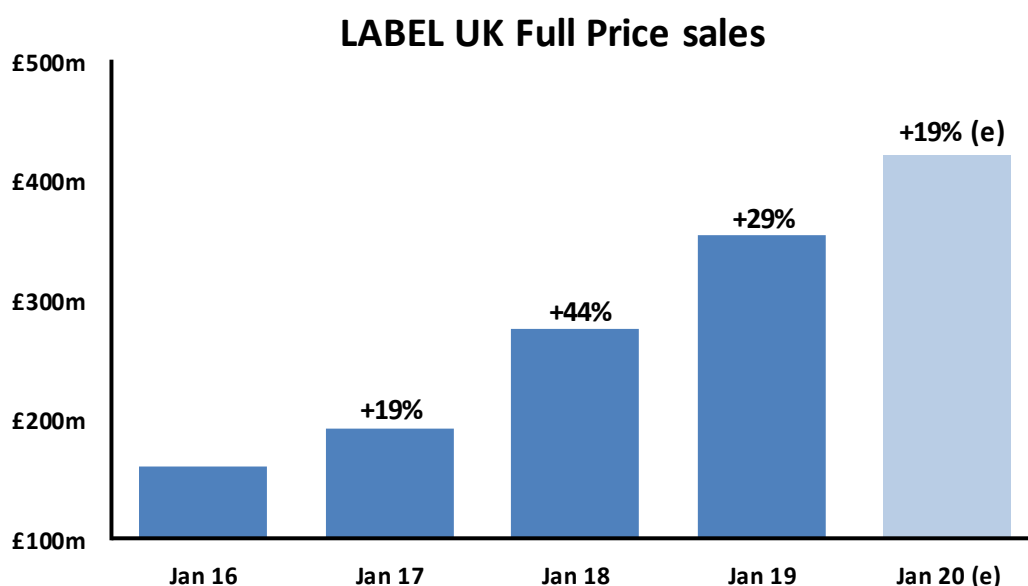
LABEL is our Online aggregation business selling third-party brands and is central to the development of our Online Platform. We continue to develop the business through the addition of new brands, increasing the breadth of offer with existing brands and (from early this year) offering items stocked in our partners' warehouses through Platform Plus.

LABEL Sales This Year

LABEL full price sales in the first half of this year were up +26% and total sales (including markdown sales) were up +29%. We expect full price sales in the second half to be up around +13%, more in line with our original full year estimate of +15%. The expected slowdown in growth in the second half is mainly due to errors and stock shortages in our Lipsy ranges, which we believe will slowly be corrected as we move through the season.

Long Term Growth in Sales and Profits

For the full year, full price LABEL sales are forecast to be up +19%. Total sales (including markdown sales) are forecast to be up +21% with net margins, after central overheads, forecast to be around 15%. The chart below puts this year's anticipated growth in the context of the last four years. Profits and net margins for the same time period are set out in the table immediately below the graph.



£m	Jan 16	Jan 17	Jan 18	Jan 19	Jan 20 (e)
Full price sales	161	192	276	356	423
Total sales	187	215	303	414	500
Operating profit	23	35	52	70	80
Net margin	12%	16%	17%	17%	16%
Operating profit including all central overheads				66	75
Net margin including all central overheads				16%	15% ¹⁰

¹⁰ Including Lipsy's profit share, Group profitability is forecast to be 16%.

LABEL Sales by Product Category (Clothing, Home & Beauty)

LABEL sales fall into three categories: Clothing, Home and Branded Beauty. Sales growth for each is set out in the table below. All categories have grown significantly, with a notable step change in Beauty since we began our collaboration with Fabled (see page 12) which substantially increased the breadth of our Branded Beauty offer.

Full price sales £m	July 2019	July 2018	
Clothing	175.5	144.2	+21.7%
Home	16.4	11.5	+41.4%
Branded Beauty	6.6	2.0	+232.5%
Total full price sales	198.5	157.7	+25.8%

LABEL Sales on Commission Versus Wholesale

The table below shows LABEL sales broken down into wholesale and commission. Although we make lower net margins on commission sales, we encourage our partners to adopt this model because we believe it generates higher sales growth. In the first half of this year commission sales grew by +32% compared to wholesale which grew by +18.5%.

Full price sales £m	July 2019	July 2018	
Wholesale	88.0	74.2	+18.5%
Commission ¹¹	110.5	83.5	+32.3%
LABEL full price sales	198.5	157.7	+25.8%

Sales from New Brands

In the first half, full price sales with continuous brands were up +10.7% with the remaining 15.1% of growth coming from the net increase from new brands.

Full price sales by brand status £m	July 2019	July 2018	
<i>New Clothing</i>	19.3	-	-
<i>New Home</i>	3.2	-	-
<i>New Branded Beauty</i>	5.0	-	-
Total new brands	27.5	-	-
Discontinued	-	3.3	-
Continuous brands	171.0	154.4	+10.7%
Total full price sales	198.5	157.7	+25.8%

¹¹ Lipsy operates as an internal commission brand partner and its sales are included within commission brand sales.

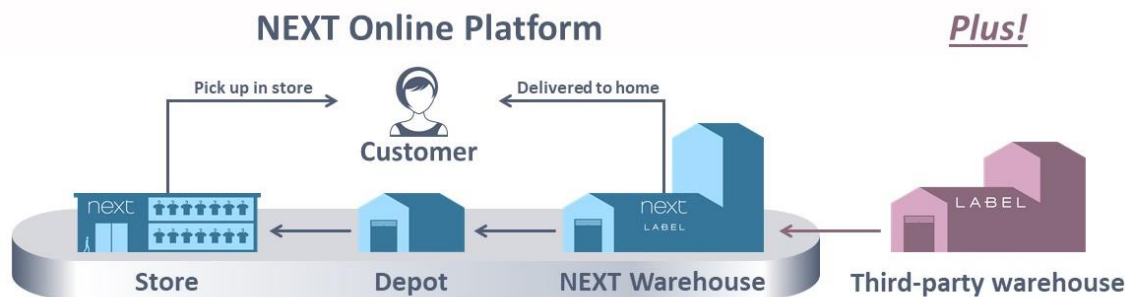
Platform Plus

How Platform Plus Works

It is not practical for NEXT to stock all the items available in our partners' ranges, in our warehouses. Platform Plus allows our customers to order un-stocked items directly from our partners' warehouses to be delivered through our network.

In March this year we started selling items in this way with three of our partner brands. These items are offered to customers on a 48-hour delivery promise. Items are injected into our warehouse and then delivered through our courier and store network. For example, a Platform Plus item ordered on a Monday, is transferred to our warehouse by Tuesday and delivered to the customer on Wednesday.

When customers order Platform Plus items with other items stocked in a NEXT warehouse (available in 24 hours) they can choose to receive one consolidated delivery, offered in 48 hours. Alternatively, customers can choose to split their delivery and have stocked items delivered in 24 hours. There is no additional charge for the split delivery. Currently, 50% are choosing to consolidate their order.



More Than a Marketplace

Platform Plus differs from many marketplaces because, rather than despatching parcels directly to consumers from third-party warehouses, items are inducted into our distribution network. The advantages of operating in this way are:

- We can **consolidate** orders into one delivery which can materially reduce distribution costs
- Items can be delivered through **stores** which currently receive 50% of all our Online orders
- We have **visibility and control** of all orders through our own trusted networks and tracking systems. This allows us to ensure quality of service and in the event of any delivery issues or queries, customers have one point of contact

Results So Far

Of the three brands trialed in the first half, two have been very successful. One brand failed because we were unable to fulfil their orders in the target 48-hour delivery window. We estimate that Platform Plus increased the sales of these brands by around 15%. Twenty-five per cent of all the items ordered from these brands came from stock held in our partners' warehouses. This implies that 50% of the sales from non-stocked items were incremental.

Platform Plus – Next Steps

As of August, we have four clothing brands operating on Platform Plus and we plan to add at least ten more later this year, with more to follow in 2020. In the longer term we hope the information gained from Platform Plus will improve stockholding in our own warehouse. So, where we see significant demand on Platform Plus items, we will request replenishment stock in addition to the stock needed to fulfil individual orders.

New Business

The way in which we have evolved NEXT over the last 20 years has been through the trialling of small inexpensive ideas. Those that have been successful we have maximised, those that have failed we have quickly abandoned. Our LABEL and Overseas businesses and our Online business itself all started as small trials. We will continue to look for opportunities to develop new businesses. There are four ground rules; new businesses must:

- Genuinely **add value** for consumers
- Play to our **strengths** and core **skills**
- Be **profitable** with net margins that are sufficient to allow them to withstand the inevitable vagaries of any consumer facing business
- Make healthy **returns on capital** employed, commensurate with the risks involved in our industry

Premium Beauty – Fabled by Marie Claire

In October 2018 we began a collaboration with Fabled by Marie Claire, a premium beauty retailer. This partnership enabled us to dramatically increase the number of branded beauty products available on our website, leveraging our Online Platform to give our customers products they might struggle to find from an equally convenient and trusted online vendor. After six months of successful collaboration the business was acquired in July this year by our subsidiary Lipsy.

The Fabled management team will continue to source and sell beauty product ranges through the Fabled website and their retail store. In addition, they will manage the Beauty offer on the NEXT website. Going forward, we plan to further increase the breadth and depth of the Beauty products sold through the NEXT Online Platform. We estimate Fabled will add £18m to sales in the current year, contributing £2m of profit.

Licensing

In August 2019 we agreed a licensing deal with Ted Baker to create and sell Ted Baker children's products. This isn't NEXT's first licensing deal, but it is by far the largest to date. We intend to launch our first collection in Spring 2020.

Ethos

The aim of the Childrenswear licence business is to combine the unique design and inspiration of our partners' brands with NEXT's Childrenswear sourcing expertise, supply chain and technical know-how. Above all else, the product we manufacture under licence must genuinely reflect the unique handwriting of our license partners. The test of whether we can create a good business will be if our collaboration genuinely adds value for consumers. In these types of arrangement, there is a risk that we produce product that looks like NEXT but with a different label in the garment. The key to success will be the effective flow of design inspiration from partner brands alongside our faithful execution of their brand handwriting.

Economics

The economics of the business are simple: NEXT buys and owns the stock but pays a licence fee (as a percentage of VAT exclusive sales) to the brand owner when the stock is sold. We anticipate that the majority of licensed product sales will come through NEXT distribution channels, but we will also wholesale product to the brand owner and other third-party distributors.

THE CHALLENGE TO WAREHOUSING INFRASTRUCTURE

Changing Capacity Requirements

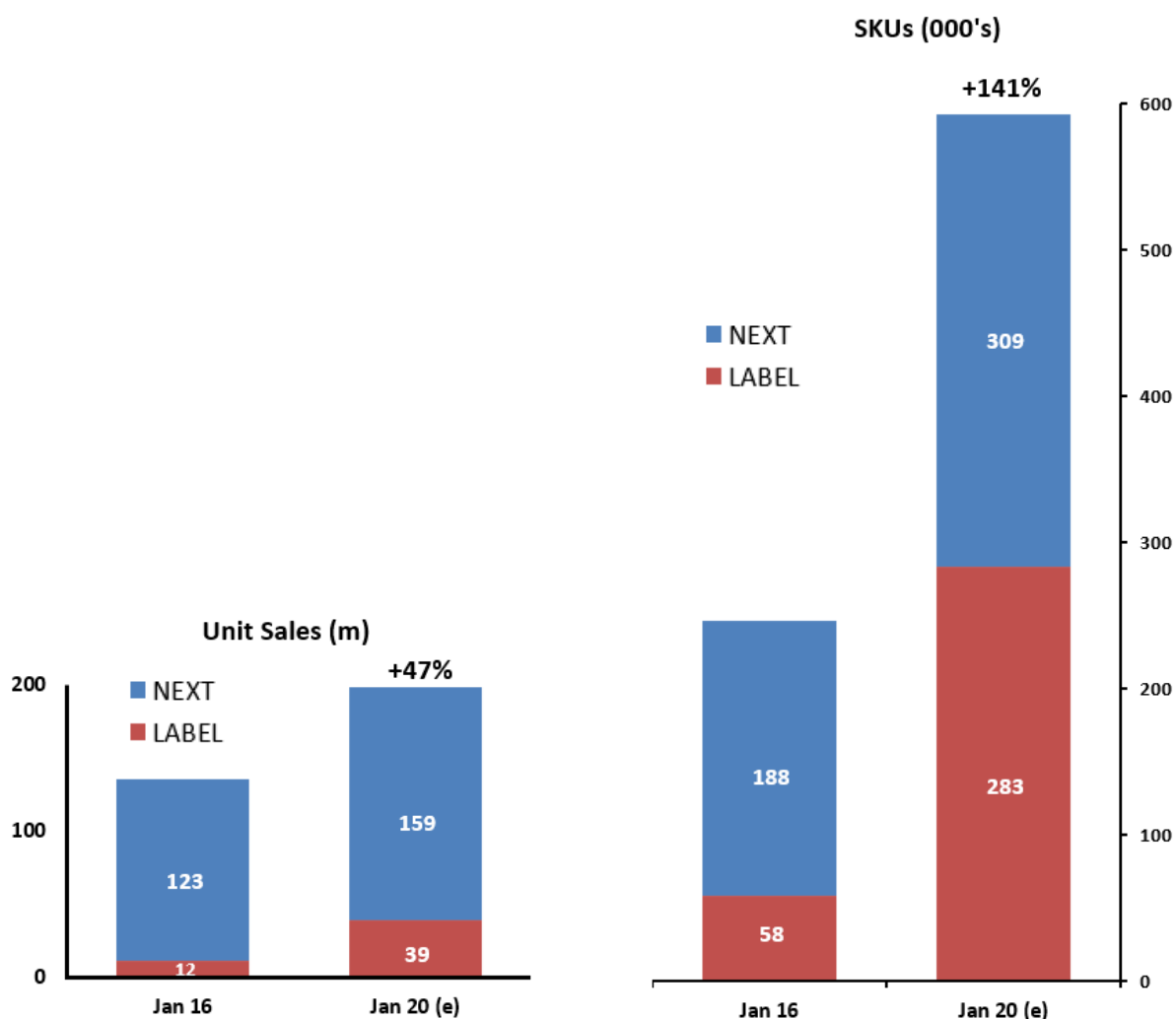
Growth in Units and Styles

Increasing choice has been central to the development of our Online Platform but the proliferation of unique items has presented our warehouses with significant challenges.

Over the last four years the number of units sold per annum Online has increased by +47%, with particularly high growth over the last two years (+34%). However, in the same period we have seen a much larger increase (+141%) in the number of unique items (SKUs) sold. SKUs are specific sizes of each colour of any given style. So, if a particular style comes in three colours and 10 sizes, it would generate 30 SKUs. The relevant numbers are set out in the tables below.

	UNIT SALES (m)		
	Jan 16	Jan 20 (e)	Var %
NEXT	123	159	+29%
LABEL	12	39	+232%
Total	135	198	+47%

	SKUs (000s)		
	Jan 16	Jan 20 (e)	Var %
NEXT	188	309	+64%
LABEL	58	283	+392%
Total	246	592	+141%

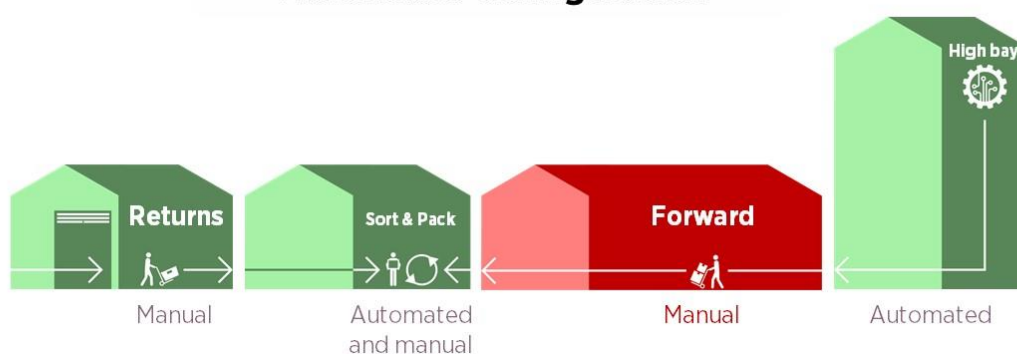


Warehouse Configuration

Our warehouses are divided into four main functional units. To understand how the exceptional growth in SKUs has affected our various operations it is necessary to understand the basic configuration of our warehouses. In simple terms they are divided into four functional areas, as set out below:

Bulk storage	Storage in dense, tall, space efficient, automated crane systems from which individual items cannot be picked. Stock can only be retrieved in whole boxes or complete pallets and is moved into forward locations. In our main warehouse, bulk storage holds 80% of our stock in less than 20% of the warehouse space.
Forward locations	Stock is stored in picking aisles that can be accessed by our warehouse colleagues, so that individual items can be picked. Forward locations occupy approximately 60% of our space but only hold 15% of our stock.
Returns storage	Storage and picking systems for stock that has been returned from customers. Returns locations hold around 5% of our stock.
Sortation & packing	Once items have been picked, they are automatically sorted. Items are sorted and collated into individual parcels and parcels are grouped into their next destination (regional depot for home deliveries or store).

Warehouse Configuration



Simplified Diagram Explaining Warehouse Functional Configuration

Operational Stress

In broad terms, bulk storage, returns, sortation and packing requirements have grown in line with total unit stock holding which, in turn, has grown in line with units sold. However, each unique item requires an individual forward location, so the requirement for forward picking locations has grown much faster than sales. This has placed significant strain on our operations in the last 12 months. As a result, we had to take the following actions:

1. The use of forward picking locations in remote warehouses to serve packing stations in our main warehouse. This involves same-day warehouse-to-warehouse stock movements.
2. Additional just-in-time stock movements from bulk storage to forward locations on the day items are required for picking. These items carry a greater risk of late delivery and/or failure to collate with other items in the same parcel.

Both the above actions are expensive, reduce collation and degrade our ability to maintain next day delivery for items ordered towards the end of the day. These operational issues have not materially constrained our sales, but they have resulted in increased operating costs and some deterioration in our on-time deliveries.

Short Term Fix

This year we have implemented a large number of measures to alleviate the pressure of our forward picking locations. The re-configuration of some physical warehouse space has increased forward picking locations by +15%. More importantly, changes to working practices and software controls have allowed us to increase the number of individual items in forward locations by a further +10%.

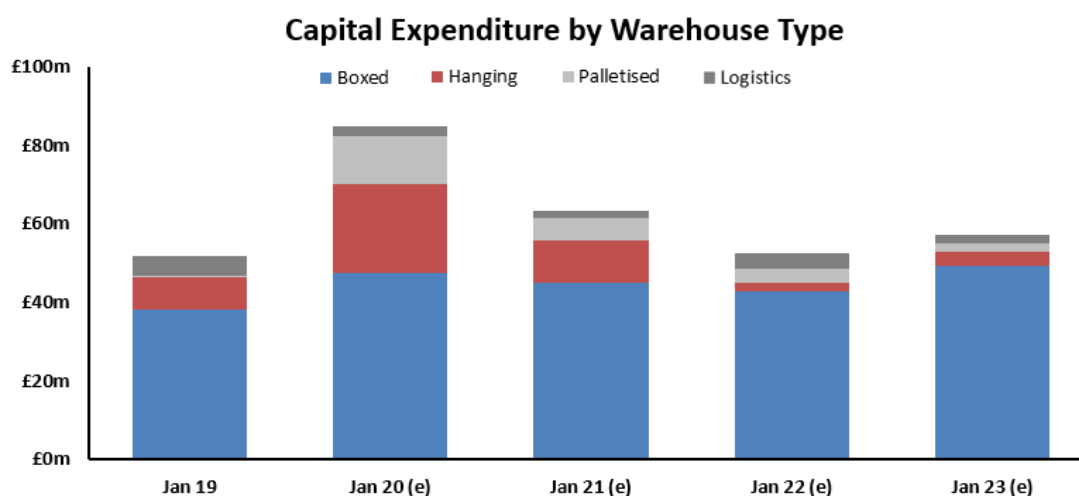
Medium Term Capital Projects (Within 18 Months)

Last year we started constructing a new automated returns storage and retrieval system for boxed items. This will be operational in January 2020 and when fully complete will increase boxed returns capacity by +80%. Importantly, it will also serve as an overflow for our forward picking locations. This will be particularly useful for low volume items which only require a handful of SKUs to be held in forward locations.

We are in the process of relocating our Retail picking operations to maximise our Online forward locations. We aim to complete this project by November 2019. In addition, over the next 18 months we will increase palletised picking locations, hanging garment sortation capacity and Online bulk storage capacity.

Long Term Capital Plans

We are currently 18 months into a five-year £310m programme of increased capital expenditure for warehouse and logistics. This programme will increase product storage and daily product throughput¹² maximums. The five-year programme is set out in the graph below by warehouse type (boxed, hanging, palletised) and logistics (depots and vehicles).



Within this programme £220m relates to our boxed warehouses, the largest single project being the building of a third boxed warehouse which is planned to be operational towards the end of 2022. This is expected to cost around £80m in total.

¹² Throughput is defined as the maximum number of units that can be picked and packed in one day.

Counting the Cost of Capital

We estimate that the £310m investment programme will accommodate an increase in annual Online sales of around £2bn, which is more than our planned sales growth in the period. So we have a degree of headroom in the event we exceed our plans. Conversely, if Online sales growth fails to materialise, £140m is, as yet, uncommitted and this expenditure could be slowed down.

There is a fine balance between spending enough to service possible future growth and spending too much on infrastructure before it is needed:

- Invest too late: warehouse constraints restrict growth, impair service and increase operational costs
- Invest too soon: returns on capital are undermined and costs are added that we may regret if growth does not materialise

The £310m investment programme represents 15p of capex for every £1 of sales capacity. Assuming an average depreciation of at least 10 years, depreciation costs are unlikely to exceed 1.5% of sales. We anticipate that additional depreciation charges will be partly offset by the full depreciation of some existing warehouse assets. So we do not envisage that our overall warehouse depreciation charge will materially increase as a proportion of sales over the next few years.

Addressing Diseconomies of Scale

It is often the case that growing businesses experience economies of scale; that has certainly been true of our Retail business over the years. However, we do not expect to benefit from economies of scale as our Online business grows, indeed we may experience the opposite.

The reason for this is not straightforward: as the number of unique items we sell increases, the footprint of the space required to hold those items also increases. However, the average number of items in any one order does not change. So, if a customer orders five items, the average distance between those items increases as the warehouses expand. The result is that it becomes harder, and potentially more expensive, to bring all the items together in the same parcel. A good analogy is the difference in the time taken to buy your one-meal basket of five items from a Tesco Local versus the time spent to do the same in a Tesco Extra. This problem is exacerbated once it becomes necessary to open separate sites, each containing items for the same parcel.

Our answer to this problem is to build a new boxed warehouse on a site adjacent to our existing site. The intention is to connect the buildings through a bridge with conveyors running in both directions which will allow items to move rapidly between sites. This, along with other innovations and mechanisation, means that we believe the problems of scale in our warehouses can be solved. But the solutions will not be easy to implement, and investors should certainly not bank on any economies of scale in warehousing as our operation grows.

Wage Costs and Growth

The wage costs for picking and processing Online stock will be around £100m in 2019/20(e), the biggest single cost in our Online operation. Since 2016 we have seen an increase in the cost per unit picked of 16%¹³, of which around 6% came from cost of living increases. The balancing 10% came from operating inefficiencies. Some of these costs came from the operational constraints explained earlier in this document. However, the rate at which we have taken on new starters in the last 18 months has also had a significant effect.

So far in 2019 we have recruited two and a half times as many new starters as in the same time period in 2016. High levels of new starters reduce efficiency as they take time (normally around six months) to reach the level of productivity achieved by experienced members of staff. New starters are also less likely to remain with the Company, resulting in higher staff turnover and placing even more pressure on recruitment.

Over the last six months we have made significant improvements to the selection, recruitment and induction of new staff. We have overhauled our training programmes and set up specific training zones where new starters receive more intense training in an area designed to rapidly orientate those unfamiliar with our warehouse layouts. We have already seen improvements in both new starter retention and productivity. We expect to make further headway as the year progresses.

RETURNS PROCESSING AND EFFICIENCY

Around 35% of the units ordered Online are returned (around 40% by value) and of these, 82% are returned through our stores. There is a temptation to regard returns as a failure. In some cases, it is. Poor sizing and inaccurate imagery can result in customer disappointment and inflate returns. But in most cases, returns are just a normal part of doing business. In the same way that customers will not buy everything they take into a fitting room, customers do not keep everything they order online.

The returns process is very convenient and slick for customers, but it is less efficient for the Company. Last year the time taken for returns to come back to our central warehouses was far from optimal. Returns made to store but not yet available for resale reached £70m (at full price selling value) and took as long as 20 days to be available for resale. Reducing this time lag in order to improve stock availability has become a priority. Since the start of the season we have implemented the following initiatives:

- Increasing the number of delivery vans visiting stores each day, allowing daily collections
- Reorganising staff shift patterns to ensure they are at the right time for processing returns
- Introducing a simple fold-and-pack operation in stores, so that pristine stock can return to the warehouses 'Online ready' and be made available for re-order immediately

These initiatives have already significantly reduced the time taken for returns to come back to our central warehouses from around 20 days down to 6 days.

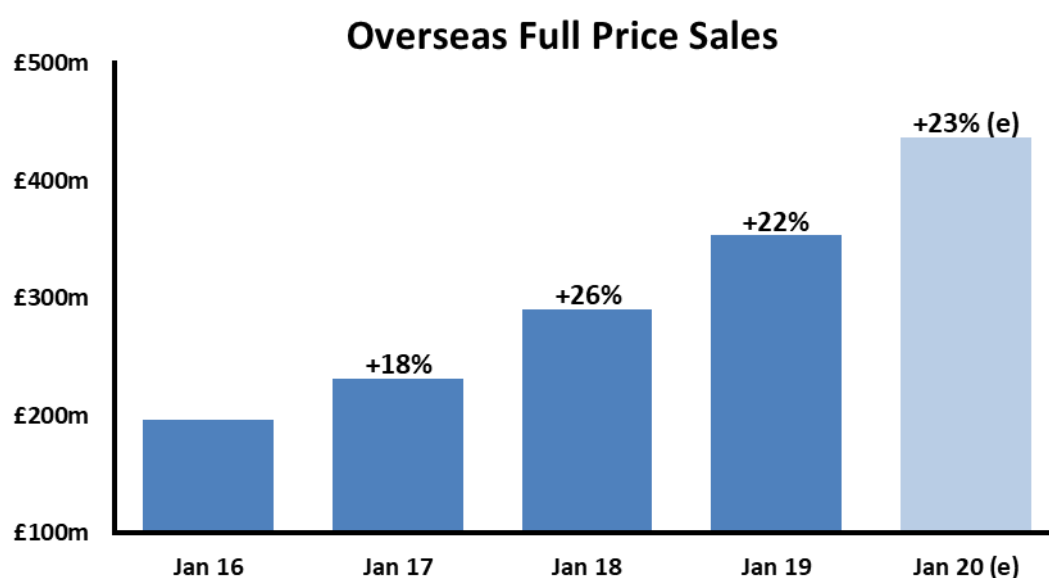
There is still much more to do. We have recently introduced new steps at the till point to identify the items that are most needed to service future orders. Where the stock is pristine and simple to refurbish, it will be folded, packed and made customer-ready in the store. This will happen on the same day it was returned, so stock can be sent to our warehouses within 24 hours. This means, for example, that stock returned by a customer on a Monday, is sent to our warehouses on Tuesday, made available for sale on Wednesday and can be delivered to another customer on Thursday.

¹³ Excludes the cost of furniture picking which has been assisted by the investment in automation since 2016.

DEVELOPING NEXT ONLINE OVERSEAS

Our Overseas business continues to deliver strong profitable growth. Investment in digital marketing is proving successful and profitable, driving around 35% of our growth. Recruitment of new customers is increasing; retention rates are improving (they are now similar to those in the UK) and we have evidence of customers increasing their spending as they mature.

Full price sales in the first half of this year were up +21%. Total sales (including markdown sales) were up +23%. For the full year ending January 2020, we expect full price sales to be up +23%, total sales (including markdown sales) to be up +25% and net margin after central overheads to be around 16%. The chart below puts this year's anticipated growth in the context of the last four years.



£m	Jan 16	Jan 17	Jan 18	Jan 19	Jan 20 (e)
Full price sales	195	231	290	354	436
Total sales	197	234	295	363	455
Operating profit	31	46	65	68	86
Net margin	16%	20%	22%	19%	19%
Operating profit including all central overheads				58	73
Net margin including all central overheads				16%	16%

The following sections provide further insight to our Overseas business, covering:

- Full price sales growth by channel (page 19)
- Sales by geographic region (page 19)
- Investment in overseas marketing (page 19)
- New overseas customers (page 20)
- Growth and Sales per customer analysis (page 20)

Full Price Sales Growth by Channel

Overseas sales are achieved through our own website, nextdirect.com, and via third-party websites. Growth by each channel is set out below. Like-for-like sales via third parties were up +31%. We ceased trading with two third parties during last year (Tmall in China and 3Suisse).

Full price sales £m	July 2019	July 2018	
Third-parties			
New	0.3	-	-
Continuous	17.2	13.1	+31%
Discontinued	-	8.1	-100%
Total third-parties	17.5	21.2	- 17%
nextdirect.com	194.2	154.3	+26%
Total Overseas full price sales	211.7	175.5	+21%

Sales by Geographic Region

The table below sets out full price sales growth by region in the first half of this year. Most of the growth has come from the Middle East and Europe. Sales across the Rest of World (ROW) were down -8%, driven mainly by the USA because: 1) sales tax became payable and we decided to maintain our prices, reducing sales before tax and 2) we ceased marketing.

Full price sales	No. of countries	% of full price sales	July 2019 £m	July 2019 vs July 2018
Middle East	14	46%	97	+35%
Europe (EU)	28	33%	70	+21%
Europe (Non-EU)	5	13%	27	+5%
Australia and New Zealand	2	6%	13	+2%
Rest of the World (ROW)	21	2%	5	- 8%
Total full price sales	70	100%	212	+21%

Investment in Overseas Marketing

This year we expect our Overseas digital marketing spend to increase by £4.4m. The table below sets out spend by media type in the last two years along with our estimate for the full year. The return on digital marketing investment in the first half of this year has been encouraging. For every £1 spent we expect £2.05 of cash¹⁴ to be generated from incremental orders placed within the first year.

Overseas marketing £m	Jan 2018	Jan 2019	Jan 2020 (e)
Display	1.4	1.2	3.1
Search	1.2	1.9	3.4
Social	0.7	1.9	4.0
Non-digital	2.7	1.8	0.7
Total marketing spend	6.0	6.8	11.2

¹⁴ Cash here is defined as profit, before accounting for the cost of marketing.

New Overseas Customers

During the past twelve months we recruited 1,140k overseas customers, up +21% on last year. Over 80% of this was in countries where we are actively marketing.

New customers from previous 12 months	July 19	July 18	Var	Var %
Via marketing	120k	40k	+80k	+200%
Organic growth in countries with marketing	800k	720k	+80k	+11%
Organic growth in countries without marketing	220k	180k	+40k	+22%
Total	1,140k	940k	+200k	+21%

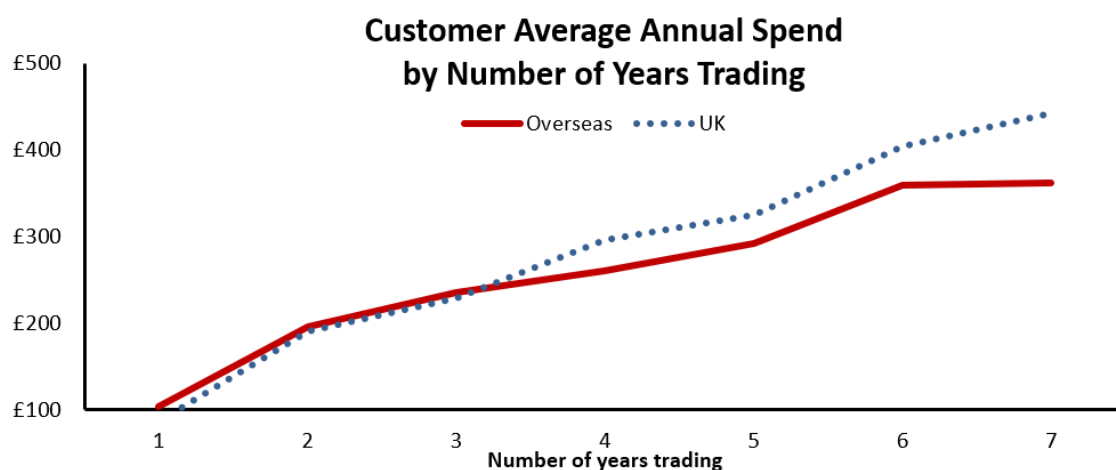
Sales Growth from New and Continuous Customers

Full price sales through nextdirect.com (excluding third parties) were up +27% in the last 12 months. Growth is detailed in the table below for new and continuous customers.

VAT ex sales and customers for nextdirect.com	12 months to July 2019	12 months to July 2018	Var %
New customers	1,140k	940k	+21%
Average sales per new customer	£92	£90	+3%
New customer sales	£105m	£84m	+25%
Continuous customers	1,160k	950k	+22%
Average sales per continuous customer	£220	£211	+5%
Continuous customers sales	£256m	£200m	+28%
Total customers	2,300k	1,890k	+22%
Average sales per customer	£157	£151	+4%
Total full price sales	£361m	£284m	+27%

Average Spend by Years Trading

Overall, continuous customers increased their average spend by only 5%. However, this number is distorted by the weight of newer customers who have traded with us for a relatively short period of time. The graph below shows the growth in customer spending (VAT inc) by the number of years they have been trading with us. The dotted line shows the equivalent data for UK customers, with a similar relationship between the average annual spend and the number of years trading.



ONLINE PROFIT ANALYSIS

Profit by Division

The table below sets out operating profit and net margin by Online channel for the first half of the year, with the change in net margins versus last year. The erosion in LABEL margin was a result of higher markdown costs, sales mix (including the growth in sales of lower margin Beauty products), and a lower commission rate. We do not expect the high level of markdown costs to be repeated in the second half of the year.

Online channel	Profit £m	Increase £m	July 2019 Net margin %	Net margin % vs July 2018
NEXT Brand UK	107.0	3.0	19.5%	- 0.1%
LABEL UK	33.5	4.2	14.2%	- 1.8%
Overseas	36.6	6.6	16.7%	+0.0%
Total Online	177.1	13.8	17.6%	- 0.7%

Margin Movement Analysis

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

Net margin on total sales to July 2018		18.3%
Bought-in gross margin	Margin improved by +0.3%, partly due to currency exchange rates being better than initially forecast. An increase in the participation of third-party branded sales, which have a lower bought-in gross margin, reduced margin by -0.4%.	- 0.1%
Markdown	Lower clearance rates reduced margin.	- 0.1%
Warehousing & distribution	Growth in overseas sales, which have a higher cost of distribution, eroded margin by -0.4%. Wage inflation and other operational costs reduced margin by -0.3%. A reduction in average selling price from our product mix, meant the growth in units handled was higher than sales growth, reducing margin by -0.2%.	- 0.9%
Catalogues & photography	Production of fewer catalogues and photography savings have increased margin.	+1.2%
Marketing & systems	Investment in both digital marketing and systems meant costs increased by +33%, faster than sales growth of +12.6%.	- 1.0%
Central costs	Central costs did not grow in line with sales, which increased margin.	+0.2%
Net margin on total sales to July 2019		17.6%

Based on our central guidance we expect full year margin to be 18.2% compared to 18.4% last year.

NEXT RETAIL

HEADLINE NUMBERS

£m	July 2019	July 2018	
Total sales	874.3	925.1	- 5.5%
Operating profit	56.0	73.2	- 23.5%
Net margin	6.4%	7.9%	

OVERVIEW AND INTRODUCTION TO THIS SECTION

Retail sales in the first half were better than we had expected. Full price sales were down -3.9%, compared to our initial budget of -8.5%. After accounting for the addition of space, like-for-like full price sales were down -4.9%, significantly better than the -10% like-for-like sales decline modelled in our fifteen-year stress test, which we published in March 2019. We believe that the better sales performance was, in part, down to improvements in stock availability (see page 23).

Retail wage costs have been managed well and staff shifts have been realigned to match current levels of demand. As a result of this and other measures, Retail wage costs have declined in line with sales (page 23). The controlled management of retail hours has been greatly assisted by our ability to re-deploy retail staff into work streams that support our Online business (collections, returns and Online orders fulfilled from stores). These online activities are recharged to the Online business.

New Retail space contributed +1.0% to full price sales and continues to deliver a healthy return on capital (see page 25). Where existing leases have been renewed, we continue to see average rent reductions of around 28% (see page 24). Lower rental levels have served to boost profitability and resulted in some stores remaining open that might otherwise have been closed. Our store portfolio remains highly profitable. This year, despite falling like-for-like sales, we estimate that 80% of our sales come from stores that make a net branch contribution, before central overheads, of more than 15%. Only 2% of our sales are forecast to come from ten loss making stores.

Nonetheless the weight of rent, rates and service charge costs remain stubbornly fixed in the stores where the leases have yet to be re-negotiated. As a result, we continued to see significant margin erosion as Retail sales fall. Retail profits reduced by -23.5% (see profit analysis page 26)



NEXT, Gloucester Quays

STOCK AVAILABILITY AND PRESENTATION

Mistakes Last Year

As part of a cost saving initiative last year we reduced our store delivery schedule. In hindsight, we made two mistakes. (1) We removed too many deliveries and (2) we did not re-align staff shifts to match the new delivery schedule. As a result, we experienced an increase in the amount of stock awaiting processing and put-away in stores. These 'backlogs' compromised the timely replenishment of stock onto the shop-floor and we believe negatively affected sales.

New Delivery Schedules

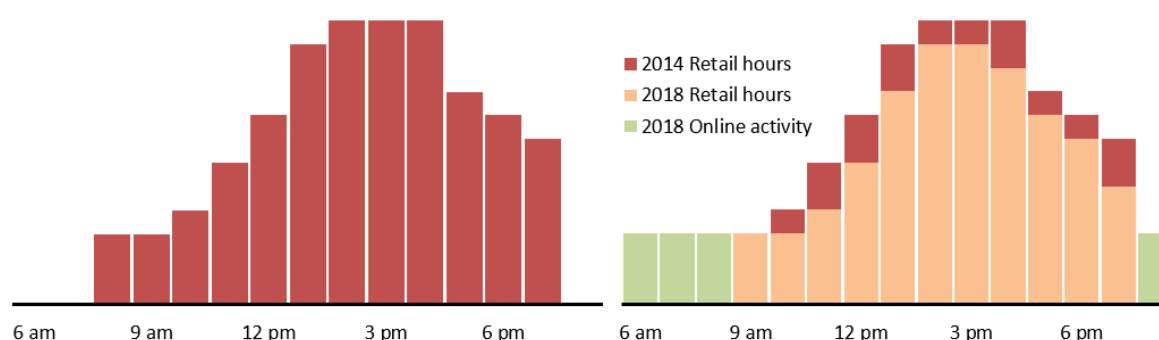
This year we have made three improvements. We have: (1) increased weekly store deliveries from 1,350 per week to 1,850, (2) realigned our delivery staff shifts to coincide more closely with the arrival of new stock and (3) increased management focus on reducing delivery backlogs.

Speedy Returns

The increase in the speed at which we are able to get Online returns back into stock (see page 17) has also had a positive effect on Retail stock availability. Improved Online stock availability has reduced transfers from Retail stores to fulfil Online orders by 25%. This has left stores with more of the Group's better-selling lines. We expect to see a further reduction in Retail-to-Online stock transfers as the year progresses.

MANAGING RETAIL WAGE COSTS

Over time our store shift patterns had become out of kilter with activity levels in our stores. During the first half of the year we reviewed and re-organised our store shift patterns to realign them with current levels of trade. The graphs below show the scale of the change. The left-hand graph shows average daily staff requirement by hour in our stores in 2014, the right-hand shows 2018. Whilst Retail activity has declined, tasks for our Online business, such as collections and returns, have increased. These activities are shown in green blocks. The costs of these hours are re-charged to our Online business, and account for around 16% of the hours worked in our stores.



RENT COSTS AND LEASE RENEWALS

As leases have come up for renewal, we have worked with landlords to renegotiate rent deals that would result in the store remaining profitable and staying open. For the year ending January 2020 we expect to renegotiate 37 leases, achieving rent reductions of -28% and renewing for an average lease term of 4.2 years. Details of the renewals are set out in the table below.

37 store renewals			
January 2020 (e) £m	Before renewal	After renewal	
Rental costs ¹⁵	12.1	8.7	- 28%
Concession income		(0.4)	
Net rent	12.1	8.3	- 31%
Net rent/sales (VAT inc.)	9.5%	6.5%	
Rent-free incentive / capital contribution used for store upgrade ¹⁶		£4.5m	
Average lease term ¹⁷		4.2 yrs	
Average branch profitability (before central overheads)		26%	

Rent Reductions

The average rent reductions of -28% is a little misleading as it implies that we are achieving a reduction of this percentage across the board. Each store is negotiated on its own merits and we have worked with our landlords to negotiate rents that allow us to remain trading profitably. The largest rent reductions are forecast in stores with the lowest profitability. When deciding whether to renew a store lease, a profitability hurdle is set to help ensure the store remains profitable for the duration of the lease, even in the event of further sales declines.

Store Refits

We expect to receive incentives or contributions of £4.8m from landlords upon renewing the lease, £4.5m of which will be spent upgrading the stores. In addition, we will spend a further £2m to bring the store layout, fixtures and decoration up to the standards required for the duration of the new lease. It is our priority to ensure that stores we commit to are of the highest standards.

Lease Expiries in the Year Ending January 2021

We are actively negotiating another 30 leases as they approach their lease expiry. Our forecast for these leases is summarised in the table below.

30 store renewals			
January 2021 (e) £m	Before renewal	After renewal	
Rental costs ¹⁸	9.8	6.9	- 30%
Concession income		(0.4)	
Net rent	9.8	6.5	- 34%
Net rent/sales (VAT inc.)	9.9%	6.6%	
Rent-free incentive / capital contribution used for store upgrade ¹⁶		£2.5m	
Average lease term ¹⁷		4.7yrs	
Average branch profitability (before central overheads)		26%	

¹⁵ Annualised rental costs including the release of any capital contributions or rent-free incentives, over the term of the lease, which will not be used to refit the stores being renewed. Excluding the release of surplus capital contributions, rent is forecast to decline by -27%.

¹⁶ This is a cash contribution or rent free period given by the landlord spent on upgrading the store.

¹⁷ Average lease term shown is to the earlier of the lease end or break clause.

¹⁸ Excluding the release of surplus capital contributions rent is forecast to decline by -27%.

RETAIL SPACE

Net Retail space is expected to increase by 100,000 square feet in the year, taking our portfolio to just under 8.4m square feet. This is higher than the guidance of 50,000 given in March, due to the successful renegotiation of rents in stores that we previously expected to close. The table below sets out the forecast change in store numbers and space for the full year.

	Store Numbers	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
January 2019	507	7,989	305	8,294
Mainline re-sites (10)	0	+214	+47	+261
Mainline closures	- 6	- 141	-1	- 142
Clearance stores	- 2	- 19	0	- 19
January 2020 (e)	499	8,043	351	8,394
Change in square feet		+54	+46	+100
Change %		+0.7%	+15.1%	+1.2%

New Space

Branch profitability¹⁹ of the portfolio opened or extended in the last 6 months is forecast to be 23% of VAT inclusive sales and payback on the net capital invested is forecast to be 23.6 months.

Transfer of Trade from Closure of Stores

Over the last 18 months, we closed 17 mainline stores and we have monitored the impact on sales in nearby stores. We have seen around 25% of sales from the closed stores transfer to local stores. The marginal profit gained on these sales, after accounting for costs in the store that received the transfer, is around 45% of VAT inclusive sales.

Concessions

This year, annualised concession income is forecast to increase from £12m to £15m and the space concessions occupy is forecast to increase by +15.1% to 351,000 square feet, representing 4.2% of our total trading space. By January 2020 we will have rolled out 37 travel agent concessions and in the second half we will open our first four mobile phone concessions. These add to our other established concessionaires operating 162 coffee shops and 29 stationery departments.

Lease Commitments and Portfolio Profitability

Fifty per cent of our leases (by value) will expire or break within 4.9 years and 80% within the next 10 years. The table below summarises our forecast store net branch profitability (before central overheads) by profitability band for the full year to January 2020.

Branch profitability	% of turnover
>20%	57%
>15%	80%
>10%	91%
>5%	97%
>0%	98%

¹⁹ Branch profitability is defined as profit before central overheads and is expressed as a percentage of VAT inclusive sales.

RETAIL MARGIN ANALYSIS

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

Net margin on total sales to July 2018		7.9%
Bought-in gross margin	Margin improved by +0.2%, partly due to currency exchange rates being better than initially forecast.	+0.2%
Markdown	A higher participation of full price sales was offset by lower clearance rates.	+0.0%
Stock loss	Stock loss did not fall in line with sales, reducing margin.	- 0.1%
Store payroll	Increased rate of pay reduced margin by -0.3%; however, this was offset by productivity initiatives.	+0.0%
Store occupancy	Falling like-for-like sales increased occupancy costs as a percentage of sales.	- 1.2%
Warehousing & distribution	A combination of falling sales, wage inflation and increased picking costs reduced margin.	- 0.4%
Net margin on total sales to July 2019		6.4%

Based on our central guidance we expect full year net margin to be around 8.8% compared to 10.9% last year.



NEXT, Sheffield

NEXT FINANCE

NEXT FINANCE SALES AND PROFIT

Interest income was up +9.9% and net profit was up +24.6%. Profit has grown faster than interest income, mainly due to a lower bad debt charge than last year (see page 31).

£m	July 2019	July 2018	
Interest income	134.0	122.0	+9.9%
Bad debt charge	(19.1)	(25.8)	- 25.9%
Overheads	(21.3)	(18.5)	+15.1%
Profit before cost of funding	93.6	77.7	+20.5%
Cost of funding ²⁰	(17.8)	(16.8)	+5.6%
Net profit	75.8	60.9	+24.6%

Profit for the full year is forecast to be at £145m, up +14% on last year. This would equate to a return on capital employed, before the cost of funding, of 15% and 12% after cost of funding.

FINANCE BUSINESS OBJECTIVES

Our nextpay credit account allows customers to try products before they buy and, if accounts are paid in full and on time, no interest is charged. Approximately 28% of sales through nextpay (representing 3% of outstanding debt balance) incur no interest charge.

Our objective is to provide customers with convenient, flexible and affordable credit for their purchases on the NEXT Online Platform and through our stores. In addition, we aim to maintain our core disciplines of:

- Healthy returns on capital employed
- Excellent control of bad debt and risk
- Meeting all our regulatory requirements, with particular focus on treating customers fairly

DETAIL AND INSIGHT

This section aims to give shareholders, bondholders, our banks and credit rating agencies much greater insight into the nature and structure of our Finance business. The topics are listed below with relevant page numbers.

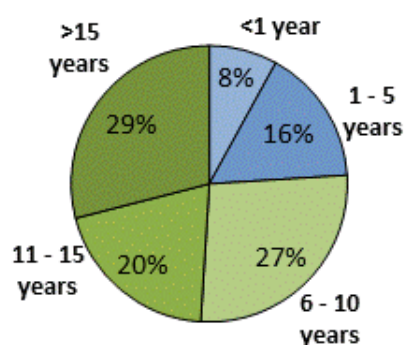
- Length of trading (maturity) analysis (page 28)
- Risk analysis (page 28)
- Growth in the customer base (page 29)
- Bad debt analysis (page 31)
- Finance business Balance Sheet and cost of funding (page 32)

²⁰ The cost of funding has been restated for July 2018 to reflect a new interest calculation methodology (see page 32).

LENGTH OF TRADING (MATURITY) ANALYSIS

NEXT has a well-established customer base with 76% of our nextpay customers trading with us for more than five years. The table and pie chart show the percentage of customers who have been trading with a nextpay account for differing lengths of time.

Years trading	% of total customers
< 1 year	8%
1 - 5 years	16%
6 - 10 years	27%
11 - 15 years	20%
> 15 years	29%
Total	100%



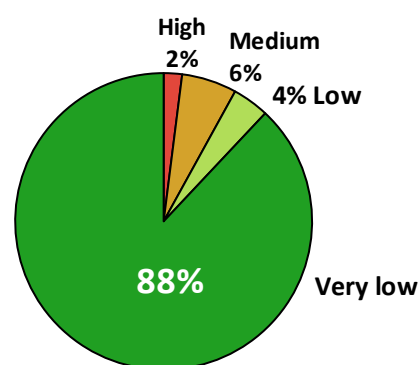
RISK ANALYSIS

We assess risk using Experian's Delphi credit scoring data. This system allows lenders to estimate a risk that a given customer will default. The following charts give a picture of the levels of risk within our Finance business. Inevitably risk is greatest for new customers, with risk steadily reducing as the customer base matures. The length of time our customers have been trading means that our risk profile is not as high as one might expect for unsecured lending and 88% of our sales are to customers with a very low risk of default.

Sales by Risk Category

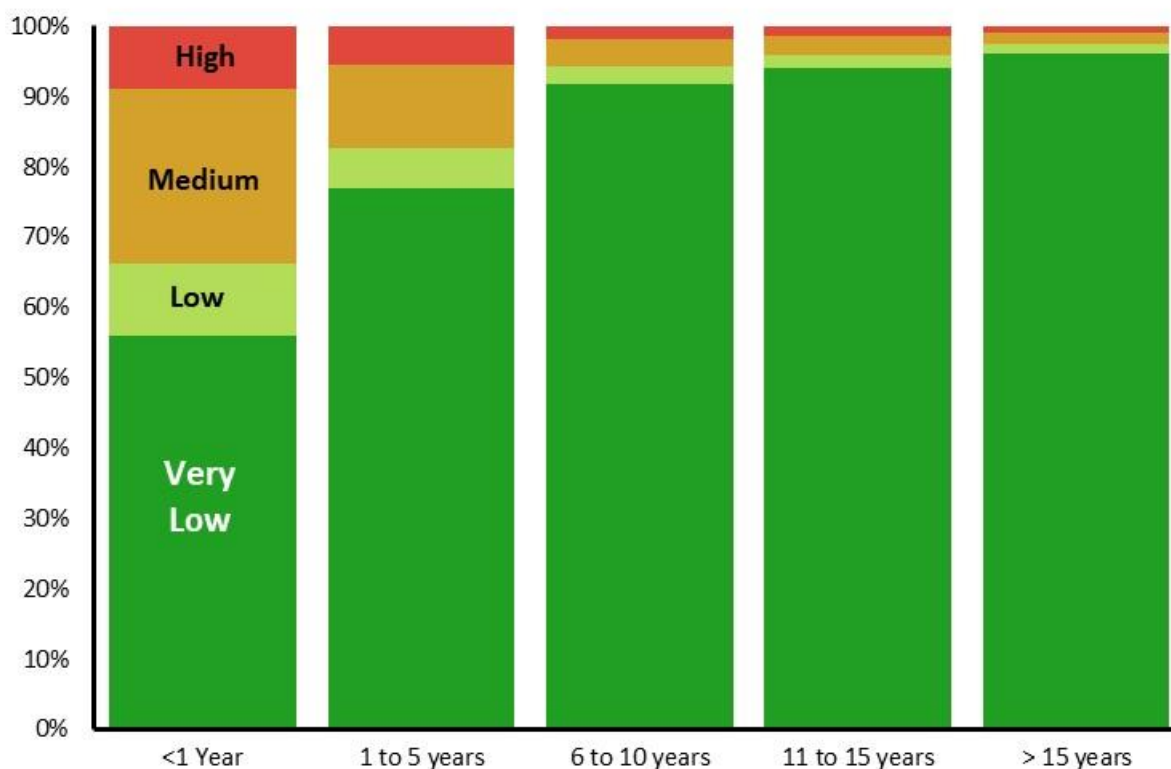
This table shows the percentage of Online credit sales taken at various levels of risk.

Probability of default	% of total Online credit sales
Very Low (<2.5%)	88%
Low (2.5%-5%)	4%
Medium (5%-20%)	6%
High (20%-30%)	2%
Total	100%



Risk at Different Levels of Maturity

The chart below shows how risk changes as customers mature. For example, high risk customers account for nearly 10% of new customers last year, but less than 1% of those who have traded with NEXT for more than fifteen years.



CREDIT CUSTOMER GROWTH

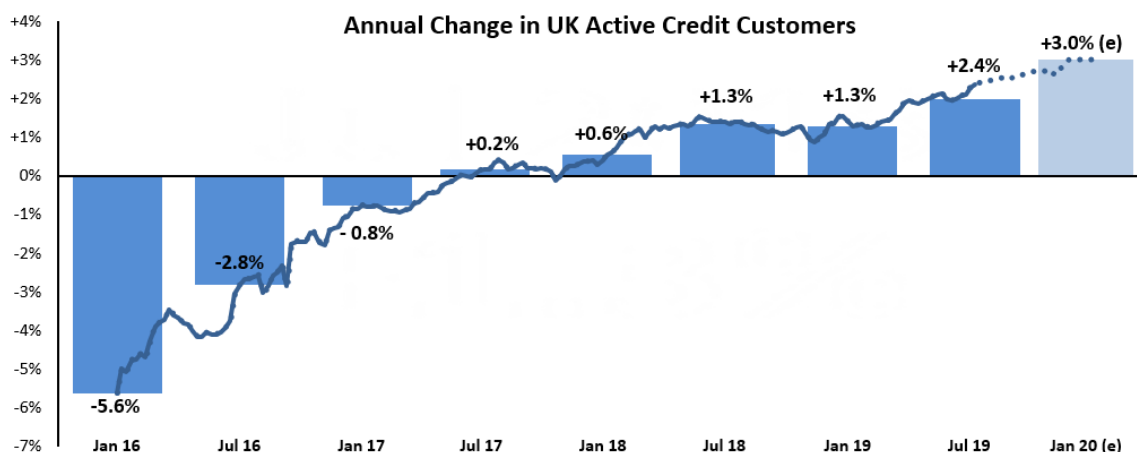
Active²¹ credit customers at the end of July 2019 were up +2.4% on last year. The table below shows the opening and closing balances of customers along with the average for the half year. Active customers at the end of July were up on the same period last year but they are down on the opening (January) number. It is usual for credit customer numbers to decline from January to July as there are some customers who only take on a credit account to service their Christmas purchases.

Credit Customers ('000)	2019	2018	Var %
Opening actives (January)	2,578	2,545	+1.3%
Average actives	2,568	2,522	+1.8%
Closing actives (July)	2,559	2,500	+2.4%

²¹ Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.

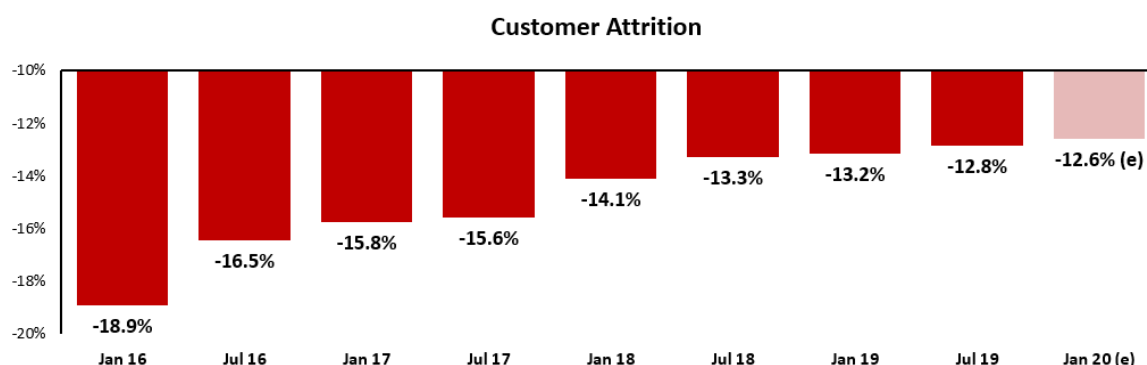
A Return to Customer Growth

Growth in active customers is expected to improve further and we anticipate that, by January 2020, active customers will be up +3.0% on last year. The improving rate of growth in our credit customer base represents a continuation of the steady progress we have made over the last eight seasons, this is clearly shown in the graph below.



Improved Marketing and Retention

We have improved the marketing aimed at recruiting new credit customers and this has contributed to the improving growth trends. However, the improvement in the retention of existing customers accounts for the lion's share of the growth. The chart below shows the reduction in attrition from -18.9% for the period ending January 2016 to our estimate of -12.6% in January 2020.



We believe the following factors have improved retention:

- **nextunlimited**, allowing customers to pay £20 for unlimited home deliveries for one year
- The increasing breadth of our offer, giving customers more reasons to return to the website
- Improved digital marketing and retention programmes

BAD DEBT

In the six months to July 2019 the cost of bad debt, including provisions, was £6.7m lower than in the same period last year. There are two main components to the bad debt cost: (1) provision requirements and debt recovery and (2) underlying write offs.

Provision Requirements and Debt Recovery

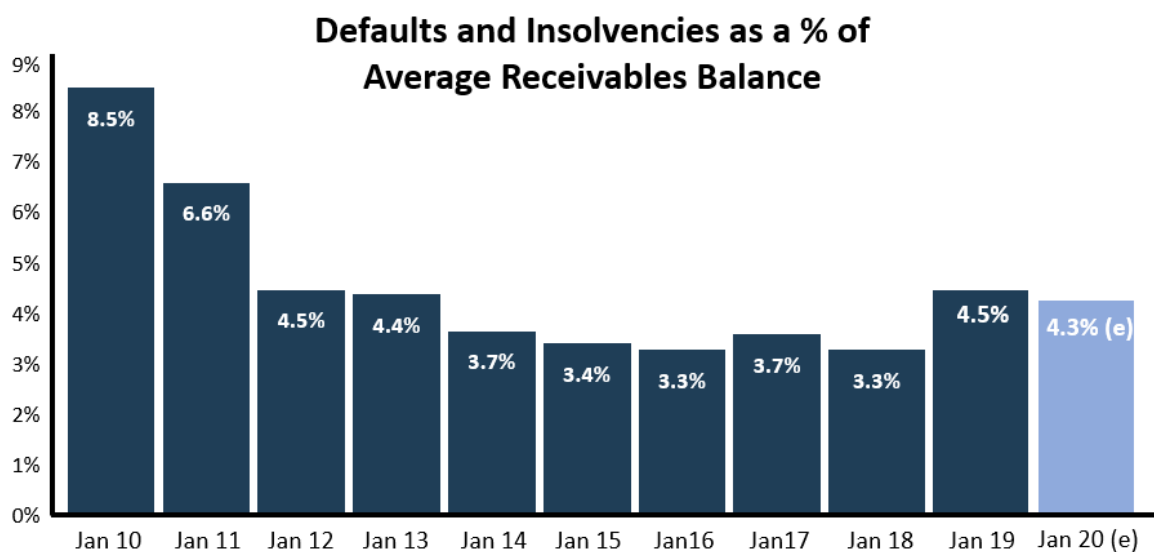
Lower growth in credit sales and higher payments in the six months to July 2019 led to a reduction in the nextpay receivables balance which, in turn, reduced our provision requirement. In the same period last year, the balance increased, generating an increase in provisions. The net impact on provisions was a £3m reduction.

In the first half of this year, we recovered £4m more than last year.

Underlying Net Write-Offs (Defaults and Insolvencies)

Underlying defaults in the six months to July 2019 continued at a similar rate to the previous six months. Looking forward, one important external indicator of customer indebtedness (Experian's Customer Indebtedness Index, CII), leads us to believe that we will see a year-on-year reduction in defaults in the second half of this year. Our internal indicators are also pointing in this direction, but we believe this, in part, is due to the tighter credit controls we introduced last year, as they begin to take effect.

We expect net write-offs (defaults and insolvencies) for the full year to be 4.3% of the net receivables balance, slightly down on the previous year. The chart below puts this in the context of the last 10 years.



FINANCE BUSINESS BALANCE SHEET AND COST OF FUNDING

In the past, allocation of debt to the Finance business has been based on the assumption that 100% of its activity is financed through debt. In reality, Group debt finances both our Finance business and our merchandise business. The assumption that our Finance business carries the entire allocation of debt and no equity, alongside the assumption that the rest of the business carries no debt, is misleading.

We have therefore revised our assumption, adopting a debt to equity ratio of 85% (see page 38 for further details). We have restated the prior year's funding costs on the same basis.

Cost of funding calculation	July 2019	July 2018
Average nextpay receivables	£1,167m	£1,110m
Debt funding %	85.0%	85.0%
nextpay receivables funded by debt	£992m	£943m
Annual interest rate %	3.6%	3.6%
Cost of funding for six months	£17.8m	£16.8m



E-commerce and IT Building, NEXT Head Office, Leicester

OTHER BUSINESS ACTIVITY

NEXT SOURCING

NEXT Sourcing (NS) is our internal sourcing agent, which procures around 38% of NEXT branded product. In the first half of this year NS profits increased by +£2.1m to £16.9m.

The table below sets out the performance of the business in Pounds and in Dollars.

	July 2019 £m	July 2018 £m		July 2019 USD m	July 2018 USD m	
Sales (mainly inter-company)	266.1	264.4	+0.6%	343.3	359.6	- 4.5%
Operating profit	16.9	14.8	+14.1%	21.7	20.1	+8.2%
Net margin	6.3%	5.6%		6.3%	5.6%	
Exchange rate	1.29	1.36				

For the full year, we expect profit in NS to be around £35m, up +19% on last year.

LIPSY

Lipsy is a women's fashion business based in London. Lipsy manage our LABEL young fashion brands and Fabled beauty. Lipsy is a wholly owned subsidiary and sales through NEXT are reported through Online (LABEL) and Retail respectively. The table below sets out Lipsy's total sales performance by distribution channel and operating profit.

£m	July 2019	July 2018	
Sales through NEXT websites (reported in NEXT Online)	63.2	52.6	+20.1%
Sales through NEXT stores (reported in NEXT Retail)	4.4	6.0	- 26.8%
Sales reported through NEXT	67.6	58.6	+15.3%
Other sales (wholesale, franchise & third-party websites)	5.9	7.8	- 24.7%
Total sales	73.5	66.4	+10.6%
Underlying operating profit	7.8	7.6	+2.6%
Operating profit (after Fabled acquisition costs)	7.4	7.6	- 2.5%

For the full year, we expect net operating profit of around £13m (including Lipsy and Fabled acquisition costs), an increase of +18%.

INTERNATIONAL RETAIL AND FRANCHISE STORES

Our franchise partners currently operate 186 stores in 33 countries, and we have 6 owned stores in three countries (Czech Republic, Slovakia and Sweden). Revenue and profit are set out in the table below.

£m	July 2019	July 2018
Franchise income ²²	26.2	25.8
Own store sales	2.7	5.1
Total revenue	28.9	30.9
Operating profit	3.1	3.0

Profit has increased on reduced sales primarily due to the closure of seven wholly owned unprofitable stores.

NON-TRADING ACTIVITIES

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

£m	July 2019	July 2018
Central costs and employee share schemes	(11.0)	(11.4)
Property management	0.2	4.4
Foreign exchange	(0.9)	1.8
Associates and joint venture	0.1	0.1
Total	(11.6)	(5.1)

Property profit was £4.2m lower than last year, due to one-off benefits in the prior year mainly from development sites profit.

Foreign exchange movements relate to contracts not eligible for hedge accounting.

PENSION SCHEME

On the IFRS accounting basis, our defined benefit schemes have moved from £125m surplus at January 2019 to £142m surplus at July 2019. This movement is primarily due to an increase in the value of equity investments held by the schemes, partially offset by an increase in liabilities resulting from a reduction in the discount rate assumption applied to the schemes' liabilities.

A full actuarial valuation of our defined benefit pension scheme was undertaken as at 30 September 2016 and another will be performed later this year. The funding position on a Technical Provisions basis was a surplus of £38m when rolled forward to 30 June 2019.

²² Franchise income is a combination of royalties received or commission added to the cost of goods sold to franchise partners.

CASH FLOW

Based on our central guidance for the year, profit before interest, tax, depreciation and amortisation is forecast to be £891m. Cash flow after non-discretionary outflows of tax, interest and working capital is expected to be £658m. After capital expenditure and paying ordinary dividends, but before financing customer receivables, the Group expects to generate surplus cash of around £305m.

The table below summarises our estimated main cash flows for the year ending January 2020. Of the £305m of surplus cash, we returned £280m to shareholders via share buybacks in the first half of the year at an average price of £55.59, reducing our shares in issue at the start of the financial year by 3.6%. Since then, we have purchased a further £20m of shares at an average price of £59.43.

For the full year, our capital expenditure is forecast to increase by £11m (page 36) and our nextpay receivables are expected to increase by £50m.

£m	Central guidance Jan 2020 (e)
Profit before Interest, Tax, Depreciation & Amortisation	891
Interest	(44)
Tax	(142)
Working capital and other	(47)
Discretionary cash flow	658
Capital expenditure	(140)
Ordinary dividends	(213)
Surplus cash	305
Financing additional nextpay receivables	(50)
Share buybacks	(300)
Movement in net debt	(45)

INTEREST AND TAX

For the full year, we expect the net interest charge to be £44m. This is £5.0m higher than the prior year due to higher costs of interest rates and average net debt.

Our full year effective tax rate is forecast to be 18.5%, an increase of +0.2% on last year due to tax provision releases last year that lowered the effective tax rate.

INTERIM DIVIDENDS

We are declaring an ordinary dividend of 57.5p, up +4.5% on last year, to be paid on 2 January 2020. Shares will trade ex-dividend from 5 December 2019 and the record date will be 6 December 2019.

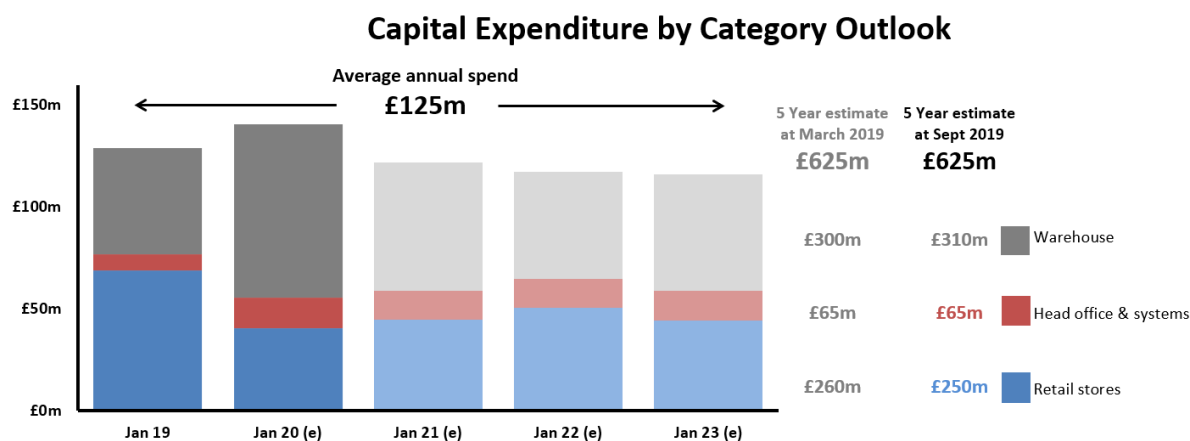
CAPITAL EXPENDITURE

As set out in the table below, capital expenditure this year is forecast at £140m, £11m higher than last year. This increase comes from investment in our Online warehouse capacity required to deliver future sales growth (page 15).

£m	Jan 2020 (e)	Jan 2019	Jan 2018
Retail space expansion	25	57	56
Retail cosmetic/maintenance capex	15	12	22
Total capex on stores	40	69	78
Warehouse	85	52	11
Head Office infrastructure	7	4	6
Systems	8	4	9
Total capital expenditure	140	129	104

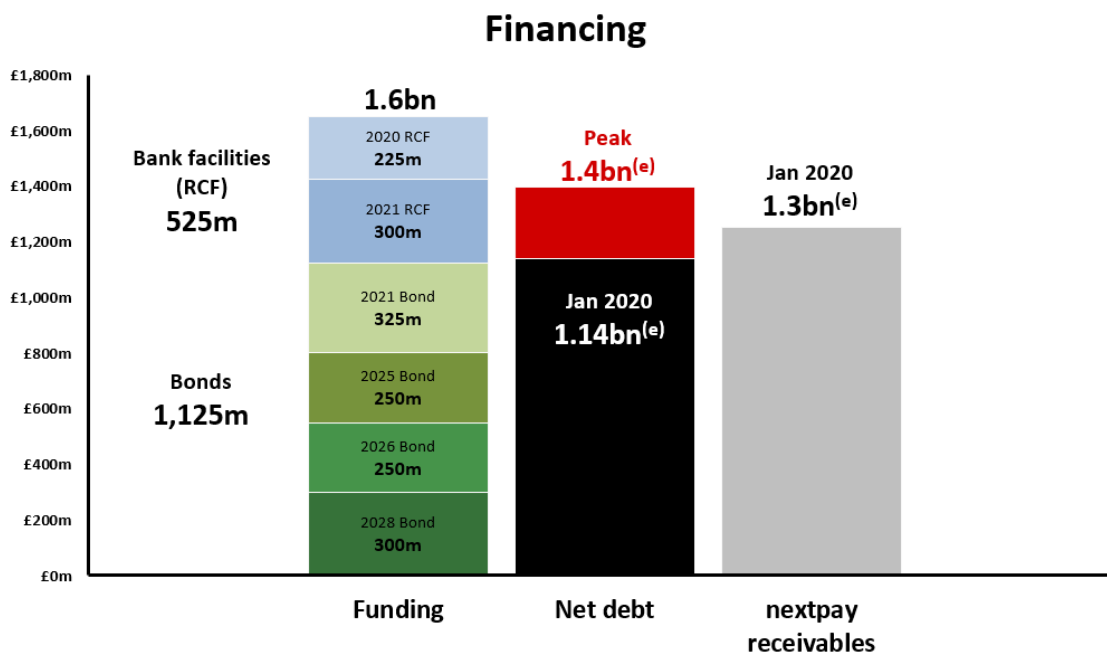
Warehouse capex will be our biggest investment at £85m, a £33m increase on the prior year. This warehouse investment is part of a £310m expansion programme to increase capacities (page 15). The £32m reduction in Retail space capex is a function of opening fewer new stores; most of the space expansion in the year relates to the re-site of small stores in existing locations to larger sites, typically on improved lease terms. Retail cosmetic and maintenance capex has increased by £3m; this is due to the renewal of leases where capital contributions from the landlord are being reinvested in the stores.

Our latest five year forecast for capital expenditure is set out in the chart below. Our average annual estimate for capital expenditure has remained broadly in line with the estimate provided in March 2019. Warehouse spend during the five-year period has increased by £10m to £310m and store spend has reduced by £10m to £250m.



BOND, BANK FACILITIES AND DEBT FORECAST FOR THE FULL YEAR

At July 2019 our committed financing amounted to £1.6bn and consisted of £1,075m of bonds and £525m of committed bank facilities. In April, we successfully issued a £250m six-year bond (maturity August 2025), with a coupon of 3.0%. We initially retained £50m of these bonds which were issued in early August. In addition, we are in the process of renegotiating our bank facilities which we expect to complete by the end of the year. The graph below shows the expected relationship between our forecast year end debt, anticipated peak financing requirements and current funding.



The Group manages the financing of its debt and liquidity to ensure it maintains its longstanding objective of retaining investment grade credit rating. Funding headroom remains comfortably above peak debt and the liquidity outlook for the Group remains strong, supported by its long-term bonds, bank facilities and strong free operating cash flow.

CAPITAL STRUCTURE, FINANCE, NET DEBT & CORPORATE RISK

INVESTMENT GRADE OBJECTIVE

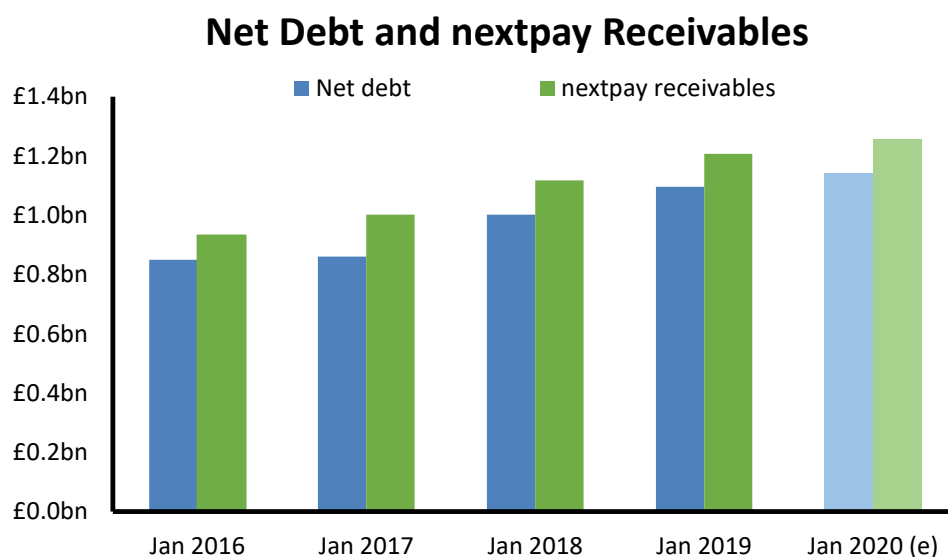
For the last 15 years NEXT has balanced its debt and equity finance to maintain an investment grade credit rating. It is our intention to maintain that rating going forward. There is a reality behind the rating - it reflects the financial risk of the Group. Consumer markets are volatile, particularly in the fickle world of fashion.

Over the last five years we have significantly increased the value of our nextpay consumer receivables. In the last four years we have increased our debt to match the increase in our nextpay receivables. Some might look at this financial debt and pose a very reasonable question: if we carry on increasing our financial debt in line with our nextpay receivables and our profit continues to flat line, might this impact our investment grade status?

Below we (1) chart the growth of our net debt and nextpay receivables, (2) detail the effect on our net debt to EBITDA ratio, (3) review the Group's net debt in the context of our lease commitments, (4) consider the balance of debt to equity in the context of their relative pricing, and finally (5) set out how we intend to fund nextpay receivables going forward in a way that supports our investment grade.

THE GROWTH OF NET DEBT AND NEXTPAY RECEIVABLES

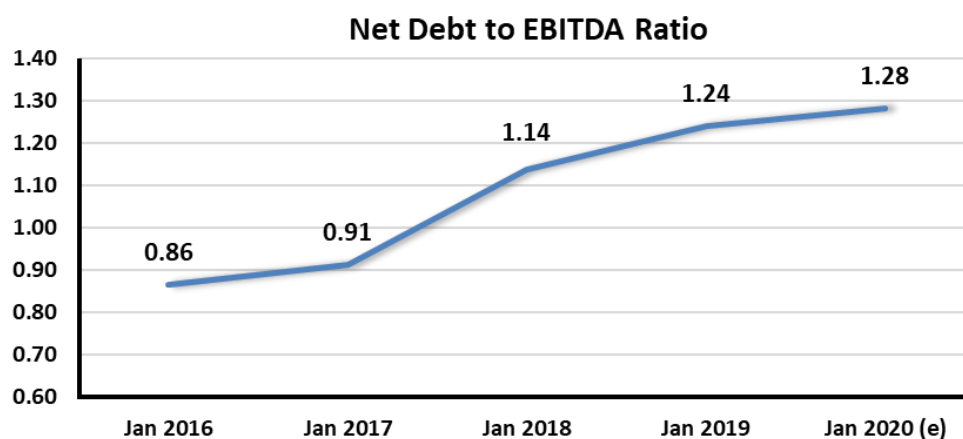
The graph below shows the year end net debt²³ and nextpay receivables over the last four years and our forecast for this year. In this period, net debt will have increased by £291m, which has been more than matched by an increase in nextpay receivables of £326m.



²³ Net debt being the reported debt in our Financial Statements, excluding lease commitments.

NET DEBT TO EBITDA

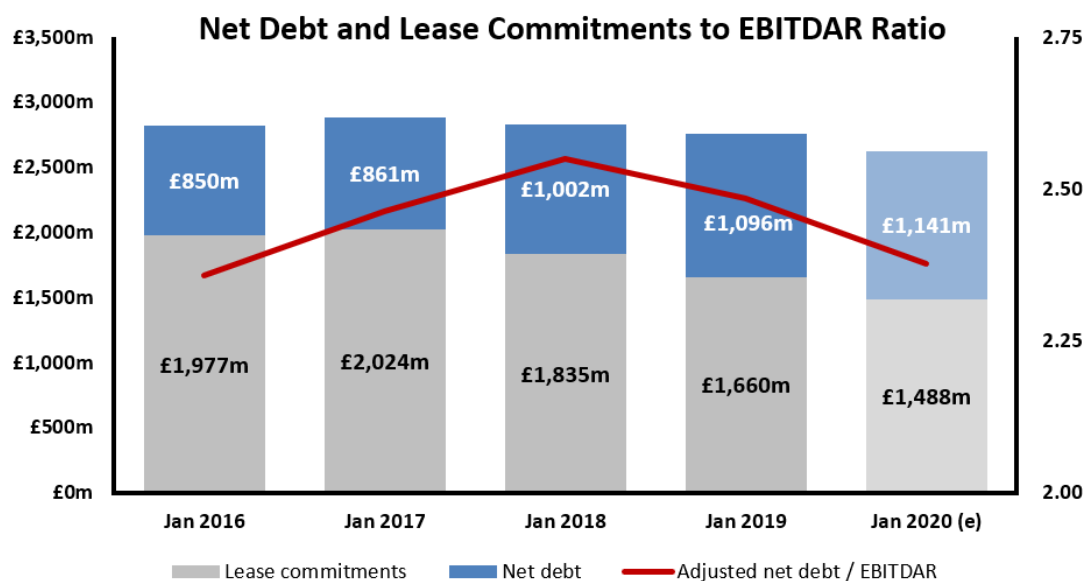
Since January 2016 growth in net debt has been more than matched by growth in nextpay receivables, although Group profits have fallen. This has resulted in the net debt to EBITDA ratio rising from 0.86 in 2016 to an estimated 1.28 in the year to January 2020. We believe the current ratio (taken along with other metrics) means the Group remains within investment grade credit rating, albeit with less headroom.



NET DEBT AND LEASE COMMITMENTS TO EBITDAR

The Group's net debt is not the only liability that affects the risk profile of the Group, the aggregate lease commitments must also be accounted for. Our lease commitments broadly correspond to the value of annual lease payments multiplied by their term to the earlier of lease end or nearest break opportunity. On renewal, rents have begun to fall (page 24) and new leases are being taken on a much shorter term (generally 5 years or less). As a result, our lease commitments (including our estimate for January 2020) will have fallen for the last three years.

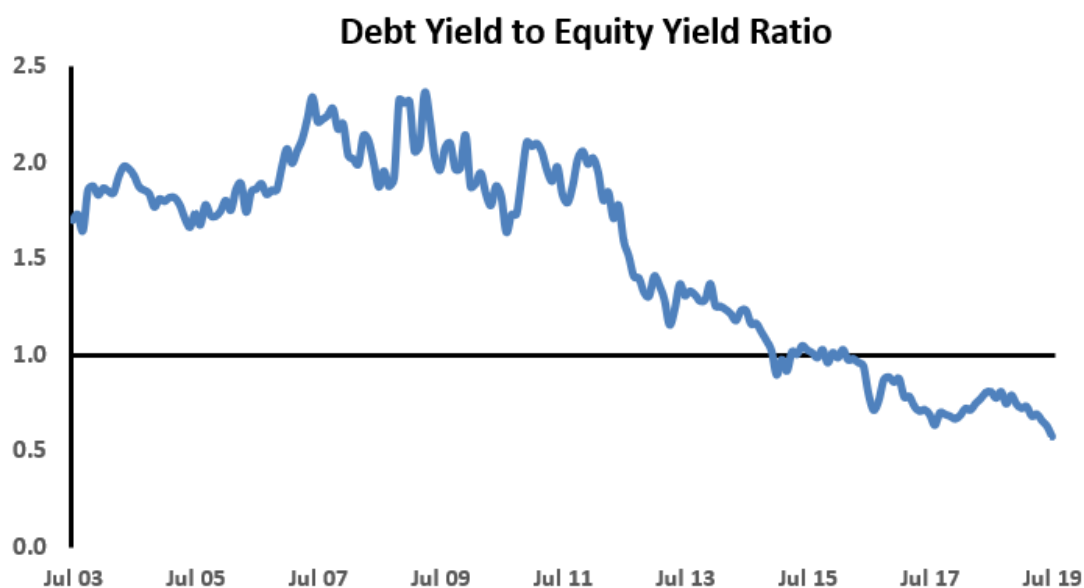
For each of the five years from January 2016, the graph below shows the sum of future lease commitments and net debt and their combined relationship to EBITDAR (earnings before interest, tax, depreciation, amortisation *and rent*). As can be seen, this measure of indebtedness has improved over the last two years.



COSTS OF DEBT AND EQUITY

The moderate increase in the Group's gearing over the last five years also needs to be considered in the context of the relative cost of debt to equity. The graph below shows the relationship between the dividend yield on the FTSE 100 and the yield on corporate bonds (debt yield)²⁴. Over the last ten years the ratio has fallen and, more recently, inverted. So now, generally, corporate bond yields are below dividend yields.

It is historically unusual for bonds to receive a lower yield than equity as, unlike shares, they do not share the upside of any growth in earnings. We suspect that this is a distortion caused by some combination of (1) global quantitative easing, putting downward pressure on yields and (2) a regulatory retreat from risk placing pressure on funds to hold more fixed income securities.



Source: Refinitiv Datastream

Equity yield is FTSE 100 dividend yield from July 2003 to July 2019.

Debt yield is iBoxx BBB Corporate bond yield (5-10 years) from July 2003 to July 2019.

From NEXT's point of view, at the current share price, dividends paid on equity are now higher than interest paid on debt. This effect is amplified after tax as interest payments are tax deductible. So, over the last five years it has made sense for the Group to use debt rather than equity to fund our nextpay receivables.

²⁴ The debt yield is iBoxx BBB Corporate bond yield (5-10 years) from July 2003 to July 2019.

THE APPROACH GOING FORWARD

85% Debt to Receivables Ratio

The Company currently generates around £300m of surplus cash after accounting for tax, capital expenditure and ordinary dividends but *before* funding any increase in our nextpay receivables. So, we have more than enough cash flow to fund any increase in nextpay receivables (this year estimated to be £50m).

Going forward we intend to allocate notional debt to NEXT Finance calculated as 85% of net receivables²⁵ and any increase in net receivables will be funded on the same basis, with the balance (15%) being funded with notional equity.

Setting the funding at 85% of net receivables means that for the debt attributable to NEXT Finance to be at risk, default rates would need to be 15% of net receivables. The risk is lower than it first appears because net receivables already include a provision for future bad debt of around 7%²⁶, so in fact defaults rates could be as high as 22% of the recoverable balance, a significant level of headroom, before the debt was at risk. This compares to this year's forecast bad debt rate of 4.3%.

We believe this headroom, combined with the factors below, support the Group's investment grade credit rating:

- the profitability of the Finance business (page 27)
- the quality of our receivables book (page 28)
- the maturity profile of our customer base (page 28)
- the low bad debt rates of the Finance business (page 31)

²⁵ Net receivables are gross nextpay receivables, less any refund liabilities and allowance for expected credit losses.

²⁶ This future bad debt provision of 7% excludes provision for already impaired debt. The total of the two provisions is 12%.

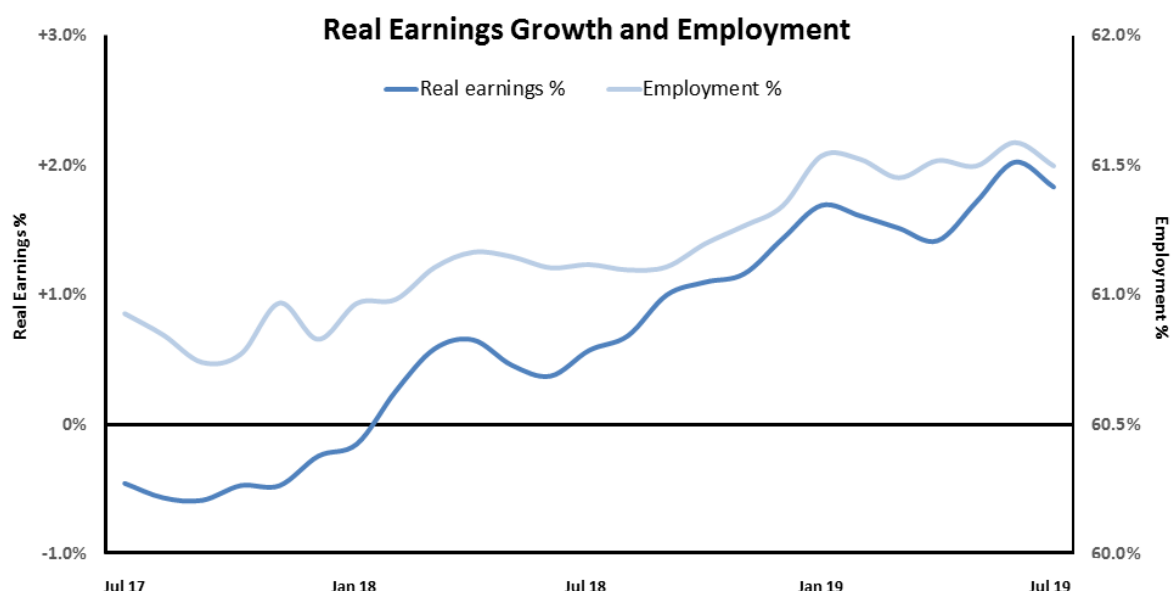
OUTLOOK FOR SALES AND PROFIT

THE WIDER MARKET

At this time, it is impossible to predict whether the UK will leave the EU with or without a deal and equally difficult to predict the effect no-deal might have on the wider UK economy. So, our guidance comes with one important caveat: we have not accounted for the possible positive effects of a deal or possible negative effects of a no-deal Brexit. The guidance given below does not account for any of the many outcomes that may materialise (see below for further Brexit commentary).

Real Earnings and Employment

Real earnings in the UK have remained positive since January 2018. Employment levels have also grown, meaning there are more people earning more money, in real terms, than last year. So, the fundamentals of the UK consumer economy are not unhealthy and aside from any potential impact from a no-deal Brexit, we can see nothing in the UK economic data to suggest that spending habits will be much different from how they were during the first half.



Sources:

Employment %: ONS A01. Labour Market Statistics (10th September 2019)

Real Earnings calculated as the difference between CPIH (ONS: 14th August 2019) and Average Weekly Earnings growth (ONS: 10th September 2019)

BREXIT – IMPACT AND PREPARATION

Possible Effect on Consumer Confidence

It is very hard to determine whether the uncertainty over Brexit is having any effect on consumer spending and we can find no evidence that it is affecting spending on small ticket price items. Some suggest that the fact of Brexit, of itself, might undermine consumer confidence. Certainly, the first few weeks of the Autumn season have been disappointing. However, we believe that the warm start to September has done much more to hinder sales than the political temperature. Our experience is that political storms, of themselves, rarely affect sales and consumers only change their behaviour when those events directly impair their income or increase their non-discretionary expenditure. Our view is that Brexit will only materially affect consumer spending in the event that it triggers inflationary pressure on prices or logistical problems at our ports.

Prices

On pricing we cannot speak for the wider economy. Looking at our own pricing for next year, a combination of currency hedging, falling commodity prices and continued development of our sourcing base means that we do not, at this point, anticipate any material price increase in our products. We have already agreed prices for 80% of the stock we plan to sell in the first half of next year and can see no evidence of any price increases on like-for-like products.

In the event of a no-deal Brexit the UK's tariffs on clothing will fall under the Government's new temporary tariff regime announced in March. We estimate these new tariff rates would *reduce* NEXT's import duty costs by around £25m as savings from lower world-wide tariffs would significantly outweigh the additional cost of new tariffs on EU goods. All things being equal we would pass this saving onto consumers and the proposed tariffs would reduce our cost of goods by around 2%.

Ports

As we stated last year, in our view, the biggest risk to the UK economy is the effective operation of our ports, the most vulnerable of which is Dover. *If* our ports operate effectively, we can see no reason why a no-deal Brexit should materially affect the short-term economic life of the country.

In March 2019 the Government issued Transitional Simplified Procedures (TSP) which significantly simplify the administration of all imports (both from the EU and the rest of the world). We believe that these measures materially reduce the risks of congestion at our ports. We would urge the Government to publish, sooner rather than later, any other ameliorating measures it might intend to take in respect of the management of UK imports and exports.

NEXT already has Authorised Economic Operator (or Trusted Trader) status in the UK and our UK warehousing is bonded, so the TSP will not be needed for our own operations. We have relatively little of our stock arriving or leaving the UK via the Dover Calais route and as a precaution we have already taken measures to move most of that traffic to alternative ports or airports.

Brexit Preparation and Impact Analysis Paper

In September last year we issued a detailed paper describing our Brexit preparations and an impact analysis of the UK leaving the EU without a trade agreement. This paper has been updated and is located at <https://www.nextplc.co.uk/investors/reports-and-presentations/2019-20>. The content of this report is largely unchanged, but those areas updated have been highlighted in red.

We are well advanced in our Brexit preparations and are setting up the administrative, legal and physical infrastructure required to operate effectively if the UK and EU are unable to agree a trade agreement. We are confident that all the necessary arrangements we need to make will be in place before the end of October 2019.

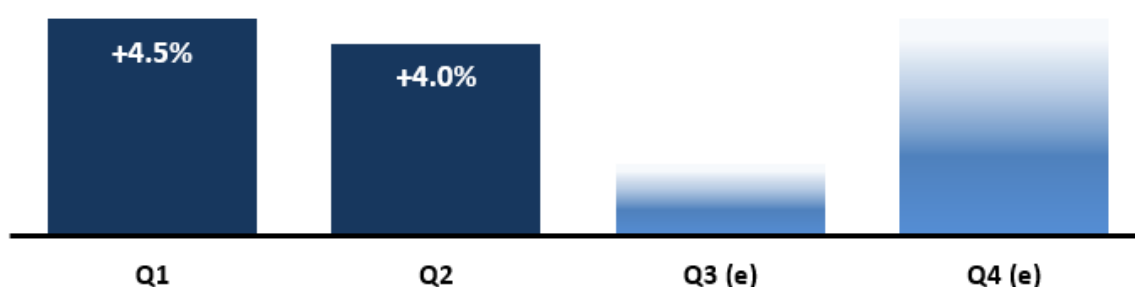
A no-deal Brexit is not our preferred outcome. That said, as long as our ports continue to operate effectively, we do not believe that the risks of a no-deal Brexit pose a material threat to the ongoing operations and profitability of NEXT's business, here in the UK or to our £233m turnover business into the EU.

SALES AND PROFIT GUIDANCE

OUTLOOK FOR SALES IN THE SECOND HALF

Our central guidance is based on full price sales for the year to January 2020 being up +3.6%. Our current estimate is that the third quarter is likely to be our weakest. We believe that our strong performance in July bought forward some August sales and that the warm start to September has adversely affected the last couple of weeks. In contrast, we expect the fourth quarter to be stronger than the third. Last year, November was particularly warm and this adversely affected the sale of winter weight product at that time.

Full Price Sales Growth Actual and Guidance by Quarter
2019/20 vs 2018/19



The table below sets out our central guidance for full price sales growth by trading divisions.

Full price variance on previous year	First half	Second half (e)	Central guidance 2019/20 (e)
Retail sales (including sales from new space)	- 3.9%	- 6.2%	- 5.1%
Online sales	+11.9%	+11.8%	+11.8%
Product full price sales	+3.8%	+2.7%	+3.3%
Finance interest income	+9.9%	+6.5%	+8.1%
Total full price sales including interest income	+4.3%	+3.0%	+3.6%

OUTLOOK FOR PROFITS AND EARNINGS PER SHARE

Our guidance for the full year remains unchanged since our July 2019 Trading Statement was issued and, for completeness, it is set out below.

At our central guidance of full price sales growth of +3.6%, we estimate that Group profit before tax would be around £725m, up +0.3% on last year. We estimate the enhancement to EPS from £300m of share buybacks to be +5.1%. As a result, EPS for the full year is expected to rise by +5.2%. Our central guidance for sales, profits and EPS is set out in the table below.

Full year estimate to January 2020	Central guidance
Total full price sales versus 2018/19	+3.6%
Group profit before tax	£725m
Group profit before tax versus 2018/19	+0.3%
Earnings Per Share growth versus 2018/19	+5.2%

THIRD QUARTER TRADING UPDATE

Our third quarter Trading Statement will cover the thirteen weeks to 26 October 2019 and is scheduled for Wednesday 30 October 2019.

SUMMARY

Evolution

Over the last five years NEXT has changed, almost beyond recognition. Our centre of gravity has shifted from stores to online, from a single brand to multi-brand aggregator, from national to international. Virtually every person in the business, from store manager, programmer, designer through to accountant, has had to change the way they do their job to help bring NEXT into the online world. We have had to learn new disciplines and build new departments – data scientists, digital marketers and more.

A Culture of Change

At the heart of this transition has been the ability of the organisation to change. Some companies have Change Departments, NEXT has always understood that *everyone* is a change manager. No one can expect to do their job in the way it was done five years ago, few would want to. The ability to innovate, experiment, fine tune, learn and improve are a part of the satisfaction we get from working together at NEXT.

The NEXT Platform

NEXT has evolved, through drawing on the intelligence, hard work and imagination of colleagues in every department and every level. At NEXT our 'strategy' has not sprung from a grand vision, rather it has been the harnessing of countless small ideas which have come together to create a coherent whole – *the NEXT Platform*. Our Platform draws on all our UK assets – our stores, warehouses, delivery networks, systems, marketing, credit facilities – to create a single powerful aggregation business. The Platform has a very clear objective: to be our customers' first choice destination for clothing and homeware; whether online or instore, whether NEXT branded products or those of our partners. And we recognise that, if we are to be a successful vendor of other brands, we need to be their most profitable third-party route to market; and that means being highly cost effective.

Principles of Doing Business

The glue that binds all our business initiatives together are guiding principles about what we do and how we do it. These are the principles:

- **Add value** for our customers and partners. This is the acid test for all our new ventures: are we using our product skills, distribution networks, systems, services and sourcing to create goods and provide services that consumers cannot easily find elsewhere?
- Play to our **strengths** and core **skills** – we are a consumer business with design and great service at the heart of what we do.
- Be **profitable** - each business must make net margins that are sufficient to allow them to withstand the inevitable vagaries of any consumer facing business.
- Make healthy **returns on capital** employed, commensurate with the risks involved in our industry and comfortably ahead of the returns expected from an equity investment. In practical terms this means a return of no less than 15% on capital invested.

Ultimately all these points come down to one simple question: are we doing a good job for our customers, our partners and our shareholders?

A Way Through the Woods

So far, we have weathered the retail storm, we have adapted what we do and have a business model that, for the moment, works in an online world. Our sales and Earnings per Share are ahead of where they were five years ago, our business delivers healthy net margins and we remain highly cash generative.

But although we can see a way through the woods, we are not out the other side yet. Consumer markets remain extremely volatile, the Online world changes rapidly, and the uncomfortable transition away from high retail rents is by no means complete. It would be a huge mistake to underestimate the scale of the challenge facing our business or assume that, from here-on-in, all will progress smoothly.

Nonetheless we believe that: if we can maintain our principles and financial disciplines, if we can continue to draw on the intelligence, hard work and imagination of our colleagues, then our endeavours will continue to bear fruit and ensure that NEXT thrives in this new online world.

Lord Wolfson of Aspley Guise

Chief Executive

19 September 2019

APPENDIX 1 – STATUTORY SALES AND LEASES

Overview

The financial information presented in pages 4 to 47 is used by the Chief Operating Decision Maker (CODM) and management in assessing business performance against its targets and strategy. Having been prepared on a basis that is consistent with prior years and current profit guidance, management believe that it provides both a useful and necessary basis for understanding the Group's results.

Management will continue to monitor and assess the financial information it presents so that it remains both useful and necessary to understand the Group's performance.

For statutory reporting purposes, changes are made in respect of revenue and accounting for leases.

A summary of the changes and their impact is set out below. Further detail on IFRS 16 "Leases" and its impact on the statutory accounts is provided in Note 17 of the Financial Statements.

Revenue

Revenue presented in pages 4 to 47 is based on "Total sales" excluding VAT. "Total sales" represent VAT exclusive sales, including the full value of commission based sales and interest income.

For statutory reporting purposes two adjustments are made to derive statutory revenue:

- Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. This adjustment reduces the value of sales recognised for statutory reporting purposes by £65.0m for the period to July 2019 (2018: £40.4m)
- Customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances are included in statutory revenue (these amounts being reclassified from cost of sales). This adjustment increases the value of sales recognised for statutory reporting purposes by £20.7m for the period to July 2019 (2018: £16.1m)

As a result, Total Sales for the period to July 2019 of £2,058.8m (2018: £1,986.2m) are recognised for statutory purposes as revenue of £2,014.5m (2018: £1,961.9m). A corresponding amount has been recognised in cost of sales.

This change has no impact on profit before taxation, profit after taxation, Earnings Per Share or cash flow.

Leases (IFRS 16)

The accounting for leases used within pages 4 to 47 does not reflect the requirements of IFRS 16, "Leases". Instead, operating leases are held off balance sheet with the lease costs recognised on a straight-line basis over the term of the lease. This is consistent with how leases were recognised on a statutory basis in prior years.

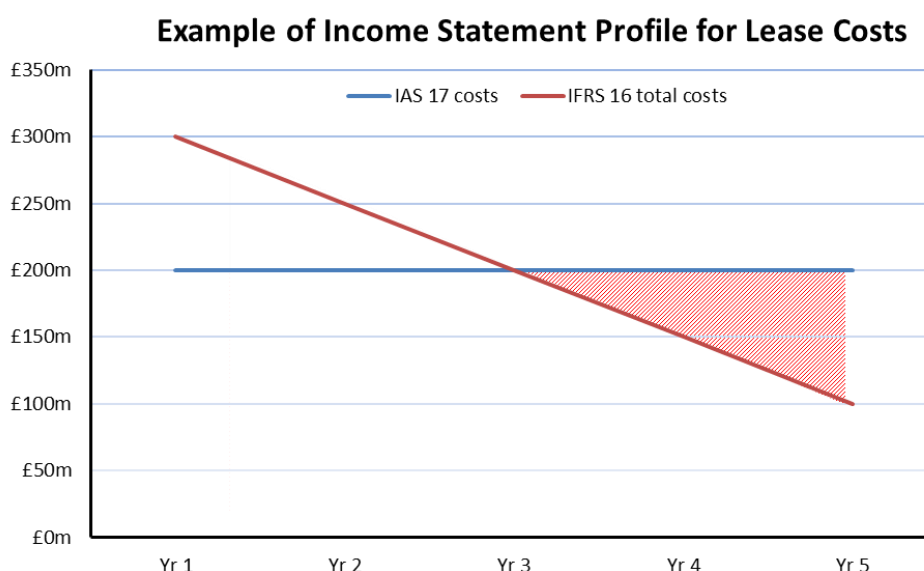
In contrast, IFRS 16 applies a single 'on balance sheet' approach to lease accounting. This is primarily achieved by:

- Recognising a right-of-use asset which represents the lessee's contractual right to use the leased asset for the lease term
- Recognising a lease liability which reflects the lessee's obligation to make payments under the terms of the lease

In this way leases previously classified as operating leases have now been included in the Balance Sheet.

Due to the changes on the Balance Sheet, the nature and timing of costs being recognised in the Income Statement also change, with depreciation being recognised on the right-of-use asset and finance costs being recognised on the lease liability. The rental costs recognised under the previous accounting standard for leases, IAS 17, are then excluded.

The impact of this change, on the timing of costs being recognised, is shown in the graph below. Note, this graph is for illustrative purposes only.



Under IFRS 16 depreciation costs on the right-of-use asset remain consistent during the lease as they are recognised on a straight-line basis.

However, finance costs recognised on a lease are typically higher in the earlier years due to the finance costs associated with a higher lease liability. This is evident in years one to three in the above graph where the total IFRS 16 cost is higher than its IAS 17 equivalent.

As the lease liability is repaid the associated finance costs reduce year on year. This is evident in years three to five in the above graph.

In contrast, under the previous accounting standard, the entire lease cost would be recognised on a straight-line basis over the lease term as represented by the horizontal line in the graph.

IFRS 16 – Fully retrospective application

NEXT has applied the requirements of IFRS 16 on a fully retrospective basis. This means that NEXT has had to recalculate its IFRS 16 position as though it had always applied IFRS 16.

When viewed across its entire lease population, the NEXT lease portfolio is relatively mature. The retrospective application of IFRS 16 has therefore resulted in a reduction in reserves of £204.0m as at January 2018 (see note 17 of the Financial Statements). This reduction in reserves represents the costs that would have been recognised at an earlier point in the lease term under IFRS 16 compared to the previous standard, IAS 17.

While this reduction in reserves has reduced the Net Assets of NEXT it will not cause any hindrance to the distribution of dividends to shareholders.

Income Statement

Having recognised a significant portion of the lease costs directly in reserves it is expected that, where the lease portfolio is stable, the NEXT Income Statement will benefit from the recognition of lower lease costs going forward. This is evident in both the July 2018 and July 2019 Income Statement, restated for IFRS 16, see below.

£m	July 2019 excluding IFRS 16	IFRS 16 impact	July 2019 including IFRS 16
Profit before taxation	319.6	+7.8	327.4
Taxation	(59.1)	- 1.4	(60.5)
Profit after taxation	260.5	+6.4	266.9
Earnings Per Share	199.5p	+4.9p	204.4p

£m	July 2018 excluding IFRS 16	IFRS 16 impact	July 2018 including IFRS 16
Profit before taxation	311.1	+3.8	314.9
Taxation	(56.9)	- 0.7	(57.6)
Profit after taxation	254.2	+3.1	257.3
Earnings Per Share	185.6p	+2.3p	187.9p

The higher profit before tax under IFRS 16 is consistent with the illustrative profile on lease costs shown on page 49 and the impact of full retrospective application of IFRS 16.

It is important to stress that while the timing and nature of costs under IFRS 16 differ to those reported under IAS 17, over the course of the lease term the overall costs remain the same.

Hence the reduction to reserves of £204.0m, and the subsequent higher profit before tax in the periods to July 2019 and July 2018, relate primarily to the timing of costs being recognised and not cash savings or improved performance under the lease contracts.

In order to present financial information on a basis consistent with how the CODM and management run the business, and to assist readers in understanding the underlying business performance, pages 4 to 47 of this report do not include the impact of IFRS 16.

Net Debt

Net debt at July 2019, excluding leases, was £1,193.3m. From a statutory reporting perspective, the adoption of IFRS 16 results, for the first time, in the recognition of lease debt on the balance sheet of £1,330.8m (2018: £1,403.6m).

£m	July 2019	July 2018
Cash and cash equivalents	42.1	23.5
Unsecured bank loans	(160.0)	(285.0)
Corporate bonds	(1,114.6)	(906.1)
Fair value hedges of corporate	39.2	31.1
Net debt excluding leases	(1,193.3)	(1,136.5)
Lease debt under IFRS 16	(1,330.8)	(1,403.6)
Net debt including leases	(2,524.1)	(2,540.1)

The year on year reduction in lease debt reflects the payments made in the period and the trend towards shorter lease terms on lease renewals.

Lease Commitment Profile

On an IFRS 16 basis 50% of the lease liability (by value) will expire within the next 11 years. This differs to the lease profile on page 25 which states that 50% of the leases will expire within 4.9 years and that within the next 10 years 80% of the rental liability would have expired.

This difference is primarily due to the following factors:

- The IFRS 16 lease profile includes all lease contracts within the scope of IFRS 16 - stores, warehouses and plant and machinery. In contrast the lease commitment profile on page 25 includes store leases only
- The IFRS 16 liability includes lease terms beyond the break clause based on our expectation of how long we will remain in the lease. In contrast the lease commitment profile on page 25 only includes the commitment to expiry or break point
- The IFRS 16 lease liability is measured as the present value of future lease payments. In contrast the lease commitment on page 25 is not discounted

UNAUDITED CONSOLIDATED INCOME STATEMENT

	26 weeks to 27 July 2019	26 weeks to 28 July 2018 Restated
	£m	£m
Continuing operations		
Revenue	2,014.5	1,961.9
Cost of sales	(1,249.6)	(1,248.9)
Gross profit	764.9	713.0
Distribution costs	(249.6)	(214.5)
Administrative expenses	(131.4)	(130.6)
Other (losses)/gains	(3.2)	1.0
Trading profit	380.7	368.9
Share of results of associates and joint venture	0.1	0.1
Operating profit	380.8	369.0
Finance income	0.1	0.1
Finance costs	(53.5)	(54.2)
Profit before taxation	327.4	314.9
Taxation (Note 6)	(60.5)	(57.6)
Profit for the period attributable to equity holders of the Parent Company	266.9	257.3
	26 weeks to 27 July 2019	26 weeks to 28 July 2018 Restated
Earnings Per Share (Note 7)		
Basic	204.4p	187.9p
Diluted	203.3p	186.8p

The 26 weeks to 28 July 2018 Income Statement and Earnings Per Share have been restated to reflect the impact of IFRS 16 'Leases' (Refer to Note 1 and 17).

Please refer to Note 7 for Earnings Per Share excluding the impact of IFRS 16.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	26 weeks to 27 July 2019	26 weeks to 28 July 2018 Restated
	£m	£m
Profit for the period	266.9	257.3
<i>Other comprehensive income and expenses:</i>		
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit pension scheme	16.6	60.4
Tax relating to items which will not be reclassified	(2.8)	(10.3)
<i>Subtotal items that will not be reclassified</i>	13.8	50.1
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(1.0)	(4.3)
Foreign currency cash flow hedges:		
- fair value movements	46.8	64.8
- reclassified to the Income Statement	(7.2)	(4.5)
- recognised in inventories	(8.8)	18.3
Cost of hedging		
- fair value movements	0.7	2.1
- reclassified to the Income Statement	-	-
- recognised in inventories	-	-
Tax relating to items which may be reclassified	(5.3)	(13.8)
<i>Subtotal items that may be reclassified</i>	25.2	62.6
Other comprehensive income for the period	39.0	112.7
Total comprehensive income for the period	305.9	370.0

UNAUDITED CONSOLIDATED BALANCE SHEET

		27 July 2019	28 July 2018	26 Jan 2019
	Notes	£m	Restated £m	Restated £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		569.7	555.6	564.9
Intangible assets		44.5	42.8	42.6
Right of use asset	17	916.6	975.3	943.8
Associates, joint venture and other investment		5.1	5.1	5.1
Defined benefit pension asset	9	142.0	163.1	125.0
Other financial assets	10	60.5	53.4	41.5
Deferred tax assets		42.2	45.0	43.6
		1,780.6	1,840.3	1,766.5
Current assets				
Inventories		551.1	518.6	502.8
Customer and other receivables	11	1,254.0	1,225.5	1,285.4
Right of return asset		32.6	24.0	23.4
Other financial assets	10	35.8	31.3	9.9
Cash and short term deposits		156.9	66.1	156.3
		2,030.4	1,865.5	1,977.8
Total assets		3,811.0	3,705.8	3,744.3
Current liabilities				
Bank loans and overdrafts		(274.8)	(327.6)	(377.3)
Trade payables and other liabilities	12	(598.8)	(572.1)	(605.7)
Lease liabilities	16/17	(154.5)	(171.7)	(175.6)
Dividends payable	8	(140.3)	(141.9)	-
Other financial liabilities	10	(4.8)	(2.5)	(9.4)
Current tax liabilities		(77.9)	(89.7)	(85.1)
		(1,251.1)	(1,305.5)	(1,253.1)
Non-current liabilities				
Corporate bonds	13	(1,114.6)	(906.1)	(905.2)
Provisions		(15.2)	(17.6)	(15.7)
Other financial liabilities	10	(13.1)	(14.3)	(9.2)
Lease liabilities	16/17	(1,176.3)	(1,231.9)	(1,190.7)
Other liabilities		(17.7)	(8.7)	(9.1)
Deferred tax liabilities		(4.4)	(10.9)	(2.8)
		(2,341.3)	(2,189.5)	(2,132.7)
Total liabilities		(3,592.4)	(3,495.0)	(3,385.8)
NET ASSETS		218.6	210.8	358.5
TOTAL EQUITY		218.6	210.8	358.5

The 28 July 2018 and 26 January 2019 Balance Sheets have been restated to reflect the impact of IFRS 16 'Leases' (Refer to Note 1 and 17).

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Foreign currency translation £m	Other reserves £m	Retained Earnings Restated £m	Total Equity Restated £m
At 26 January 2019	13.9	0.9	16.0	(271.6)	0.4	0.4	(2.0)	(1,443.8)	2,044.3	358.5
Profit for the period	-	-	-	-	-	-	-	-	266.9	266.9
Other comprehensive income/(expense) for the period	-	-	-	-	25.6	0.6	(1.0)	-	13.8	39.0
Total comprehensive income/(expense) for the period	-	-	-	-	25.6	0.6	(1.0)	-	280.7	305.9
Share buybacks and commitments	(0.5)	-	0.5	-	-	-	-	-	(280.2)	(280.2)
ESOT share purchases	-	-	-	(46.2)	-	-	-	-	-	(46.2)
Shares issued by ESOT	-	-	-	15.0	-	-	-	-	(3.3)	11.7
Share option charge	-	-	-	-	-	-	-	-	6.4	6.4
Tax recognised directly in equity	-	-	-	-	-	-	-	-	2.8	2.8
Equity dividends (Note 8)	-	-	-	-	-	-	-	-	(140.3)	(140.3)
At 27 July 2019	13.4	0.9	16.5	(302.8)	26.0	1.0	(3.0)	(1,443.8)	1,910.4	218.6
At 27 January 2018	14.5	0.9	15.4	(231.6)	(42.9)	-	3.3	(1,443.8)	1,962.8	278.6
Profit for the period	-	-	-	-	-	-	-	-	257.3	257.3
Other comprehensive income/(expense) for the period	-	-	-	-	65.2	1.7	(4.3)	-	50.1	112.7
Total comprehensive income/(expense) for the period	-	-	-	-	65.2	1.7	(4.3)	-	307.4	370.0
Share buybacks and commitments	(0.5)	-	0.5	-	-	-	-	-	(274.0)	(274.0)
ESOT share purchases	-	-	-	(41.9)	-	-	-	-	-	(41.9)
Shares issued by ESOT	-	-	-	14.9	-	-	-	-	(4.1)	10.8
Share option charge	-	-	-	-	-	-	-	-	6.4	6.4
Tax recognised directly in equity	-	-	-	-	-	-	-	-	2.8	2.8
Equity dividends (Note 8)	-	-	-	-	-	-	-	-	(141.9)	(141.9)
At 28 July 2018	14.0	0.9	15.9	(258.6)	22.3	1.7	(1.0)	(1,443.8)	1,859.4	210.8

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	26 weeks to 27 July 2019	26 weeks to 28 July 2018 Restated
	£m	£m
Cash generated from operations	474.8	412.6
Corporation taxes paid	(70.2)	(68.5)
Net cash from operating activities	404.6	344.1
<i>Cash flows from investing activities</i>		
Additions to property, plant and equipment	(65.1)	(58.2)
Movement in capital accruals	2.2	4.1
Payments to acquire property, plant and equipment	(62.9)	(54.1)
Proceeds from sale of property, plant and equipment	0.2	0.2
Purchase of shares in associate	-	(3.0)
Net cash from investing activities	(62.7)	(56.9)
<i>Cash flows from financing activities</i>		
Repurchase of own shares	(280.2)	(275.0)
Purchase of shares by ESOT	(46.2)	(41.9)
Disposal of shares by ESOT	11.7	10.8
Issue of corporate bonds	198.6	-
(Repayment)/proceeds from unsecured bank loans	(95.0)	150.0
Lease repayment	(75.1)	(67.6)
Interest paid	(48.1)	(49.7)
Interest received	0.2	0.1
Net cash from financing activities	(334.1)	(273.3)
Net increase in cash and cash equivalents	7.8	13.9
Opening cash and cash equivalents	34.0	8.5
Effect of exchange rate fluctuations on cash held	0.3	1.1
Closing cash and cash equivalents (Note 15)	42.1	23.5

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The Group's interim results for the 26 weeks to 27 July 2019 (prior year 26 weeks to 28 July 2018) were approved by the Board of Directors on 19 September 2019 and have been prepared in accordance with IAS 34 *"Interim financial reporting"*, as adopted by the European Union.

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 include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the 52 weeks to 26 January 2019 which 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 Section 498(2) or (3) of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis except for certain financial instruments, pension assets and liabilities and share-based payment liabilities which are measured at fair value. 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.

New accounting standards, interpretations and amendments adopted by the Group

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 26 January 2019, except for the adoption of new standards effective as of 27 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

The Group applies, for the first time, IFRS 16 *"Leases"*. The nature and effect of this change is disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim consolidated financial statements of the Group.

IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. The Group applied IFRS 16 retrospectively, restating prior year comparatives. It applied the practical expedient to grandfather the definition of a lease on transition and apply the recognition exemption for both short term and low value assets.

Revised accounting policies for IFRS 16 are detailed below.

The Group as Lessee

At inception of a contract the Group assesses whether the contract is or contains a lease. A lease is present where the contract conveys, over a period of time, the right to control the use of an identified asset in exchange for consideration.

1. Basis of preparation (continued)

Where a lease is identified the Group recognises a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

Lease liability – initial recognition

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted at the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments such as those that depend on an index or rate (such as RPI), initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options where the Group is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Consolidated Balance Sheet, split between current and non-current liabilities.

Lease liability – subsequent measurement

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability – re-measurement

The lease liability is re-measured where:

- there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate or
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used) or
- the lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

When the lease liability is re-measured, an equivalent adjustment is made to the right-of-use asset unless its carrying amount is reduced to zero, in which case any remaining amount is recognised in profit or loss.

Where the lease liability is denominated in a foreign currency it is retranslated at the balance sheet date with foreign gains and losses recognised in profit or loss.

1. Basis of preparation (continued)

Right-of-use asset – initial recognition

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the Group has an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

The right-of-use asset is presented as a separate line in the Balance Sheet.

Right-of-use asset – subsequent measurement

Right-of-use assets are depreciated over the shorter of the lease term and useful life of the underlying asset.

Impairment

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment – non-financial assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Short term leases and low value assets

For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Group as Lessor

The Group enters into lease agreements as a lessor with respect to some of its properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1. Basis of preparation (continued)

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The impact of IFRS 16 on the Income Statement and Balance Sheet is set out in Note 17 of these Interim Financial Statements.

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 2019 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 54 to 58 of the 2019 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. Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. Total sales represent the amount payable by the customer, excluding VAT.

The activities, products and services of the operating segments are detailed on page 50 of the 2019 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 Online segment.

During the 2020 financial year the CODM has altered the internal reporting of finance costs allocated to NEXT Finance. The NEXT Finance segment revenue represents the interest charged to customers on their credit account balances. Previously all of the external debt and the associated interest, excluding lease debt, was allocated to the NEXT Finance segment. Following a review of this allocation it was decided to allocate 85% of the debt and associated interest costs to the Finance Business with the remaining element held as part of the overall group funding. This allocation better reflects the utilisation of funds across the business. The impact of this change has increased the NEXT Finance profit by £3.1m (2018: £3.0m) but had no impact on overall Group profit.

In common with many retailers, revenue and trading profit are subject to seasonal fluctuations and are weighted towards the second half of the year which includes the key Christmas period for the business.

Segment sales and revenue

26 weeks to 27 July 2019	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	874.3	(1.5)	(0.5)	872.3	1.6	873.9
NEXT Online	1,004.9	(63.5)	21.2	962.6	-	962.6
NEXT Finance	134.0	-	-	134.0	-	134.0
NEXT International Retail	28.9	-	-	28.9	-	28.9
NEXT Sourcing	3.4	-	-	3.4	262.7	266.1
	2,045.5	(65.0)	20.7	2,001.2	264.3	2,265.5
Lipsy	5.9	-	-	5.9	32.1	38.0
Property Management	7.4	-	-	7.4	98.5	105.9
	2,058.8	(65.0)	20.7	2,014.5	394.9	2,409.4
Total segment sales/revenue						
Eliminations	-	-	-	-	(394.9)	(394.9)
Total	2,058.8	(65.0)	20.7	2,014.5	-	2,014.5

3. Segmental analysis (continued)

Segment sales and revenue

26 weeks to 28 July 2018	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Retail	925.1	(0.6)	(2.0)	922.5	2.3	924.8
NEXT Online	892.3	(39.7)	18.1	870.7	-	870.7
NEXT Finance	122.0	-	-	122.0	-	122.0
NEXT International Retail	30.9	-	-	30.9	-	30.9
NEXT Sourcing	2.9	-	-	2.9	261.5	264.4
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,973.2	(40.3)	16.1	1,949.0	263.8	2,212.8
Lipsy	7.8	(0.1)	-	7.7	32.9	40.6
Property Management	5.2	-	-	5.2	102.6	107.8
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total segment sales/revenue	1,986.2	(40.4)	16.1	1,961.9	399.3	2,361.2
Eliminations	-	-	-	-	(399.3)	(399.3)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,986.2	(40.4)	16.1	1,961.9	-	1,961.9
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

In the CEO report, Label commission sales include sales of all Lipsy stock on the NEXT website, as NEXT trades on a commission basis with Lipsy. However, as Lipsy is a group company no commission adjustment is required in respect of this for external revenue in the notes above.

3. Segmental analysis (continued)

Segment profit

The prior year segment profit results for the first half of 2018 have been restated to reflect the impact of IFRS 16 “Leases” and the change in the allocation of finance costs to NEXT Finance. Finance costs associated with the leases have been assigned to the segments to which the lease relates.

	26 weeks to 27 July 2019	26 weeks to 28 July 2018 Restated	26 weeks to 28 July 2018 As reported
	£m	£m	£m
NEXT Retail	61.3	73.7	73.2
NEXT Online	180.4	165.8	163.3
NEXT Finance	75.8	60.9	57.9
NEXT International Retail	3.2	3.7	3.0
NEXT Sourcing	16.9	14.9	14.8
	337.6	319.0	312.2
Lipsy	5.5	3.4	3.6
Property Management	(0.4)	4.6	4.4
Total segment profit	342.7	327.0	320.2
Central costs and other	(4.5)	(4.6)	(4.6)
Recharge of interest	17.8	16.8	19.8
Interest associated with leasing	32.1	34.7	-
Share option charge	(6.4)	(6.8)	(6.8)
Unrealised foreign exchange (losses)/gains	(0.9)	1.8	1.8
Trading profit	380.8	368.9	330.4
Share of results of associates and joint venture	0.1	0.1	0.1
Finance income	0.1	0.1	0.1
Finance costs	(21.5)	(19.5)	(19.5)
Interest associated with leasing	(32.1)	(34.7)	-
Profit before tax	327.4	314.9	311.1

4. Revenue

The Group's disaggregated revenue recognised under contracts with customers relates to the following categories and operating segments:

26 weeks to 27 July 2019

	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Online	962.6	-	-	-	962.6
NEXT Finance	-	134.0	-	-	134.0
NEXT Retail	872.3	-	-	-	872.3
NEXT International Retail	26.1	-	2.8	-	28.9
NEXT Sourcing	3.4	-	-	-	3.4
Lipsy	4.8	-	1.1	-	5.9
Property Management	-	-	-	7.4	7.4
Total	1,869.2	134.0	3.9	7.4	2,014.5

26 weeks to 28 July 2018

	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Online	870.7	-	-	-	870.7
NEXT Finance	-	122.0	-	-	122.0
NEXT Retail	922.5	-	-	-	922.5
NEXT International Retail	28.0	-	2.9	-	30.9
NEXT Sourcing	2.9	-	-	-	2.9
Lipsy	6.8	-	0.9	-	7.7
Property Management	-	-	-	5.2	5.2
Total	1,830.9	122.0	3.8	5.2	1,961.9

5. Operating Profit

Group operating profit is stated after charging/(crediting):

	26 weeks to 27 July 2019	26 weeks to 28 July 2018 Restated
	£m	£m
Impairment charges on tangible assets	-	1.4
Write down of inventories to net realisable value	56.9	51.5
Customer and other receivables:		
Impairment charge	20.8	27.5
Amounts recovered	(1.6)	(2.8)
Depreciation of right-of-use asset	67.4	68.7
Interest on lease liabilities	32.1	34.7
Foreign exchange loss on lease liabilities	2.3	0.8

6. 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.

7. Earnings Per Share

	26 weeks to 27 July 2019 Including IFRS 16	26 weeks to 28 July 2018 Including IFRS 16	26 weeks to 27 July 2019 Excluding IFRS 16	26 weeks to 28 July 2018 Excluding IFRS 16
Basic Earnings Per Share	204.4p	187.9p	199.5p	185.6p
Diluted Earnings Per Share	203.3p	186.8p	198.4p	184.5p

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 2.3 million non-dilutive share options which were excluded from the diluted EPS calculation (2018: 2.6 million).

7. Earnings Per Share (continued)

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

	26 weeks to 27 July 2019	26 weeks to 28 July 2018 Restated
	£m	£m
Profit after tax attributable to equity holders of the Parent Company	266.9	257.3
Weighted average number of shares (millions):		
Weighted average shares in issue	136.2	142.0
Weighted average shares held by ESOT	(5.6)	(5.0)
Weighted average shares for basic EPS	130.6	137.0
Weighted average dilutive potential shares	0.7	0.7
Weighted average shares for diluted EPS	131.3	137.7

8. Dividends

It is intended that this year's ordinary interim dividend of 57.5p per share will be paid to shareholders on 2 January 2020. NEXT plc shares will trade ex-dividend from 5 December 2019 and the record date will be 6 December 2019. Dividends paid or declared during the period were as follows:

26 weeks to 27 July 2019

		Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m	July 2019 Balance Sheet £m
Ordinary final dividend for year to Jan 2019	1 Aug 2019	110p	-	140.3	140.3
			-	140.3	140.3

26 weeks to 28 July 2018

		Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m	July 2018 Balance Sheet £m
Ordinary final dividend for year to Jan 2018	1 Aug 2018	105p	-	141.9	141.9
			-	141.9	141.9

9. Defined benefit pension

The principal pension scheme is the 2013 NEXT Group Pension Plan, which includes defined benefit and defined contribution sections.

The movement in the defined benefit pension surplus in the period is as follows:

	26 weeks to 27 July 2019	26 weeks to 28 July 2018	52 weeks to 26 January 2019
	£m	£m	£m
Surplus in schemes at the beginning of the period	125.0	106.2	106.2
Current service cost	(3.6)	(4.2)	(8.2)
Administration costs	(1.2)	(1.1)	(1.9)
Net interest	1.9	1.3	2.8
Employer contributions	3.5	0.5	7.8
Actuarial gains	16.4	60.4	18.7
Guaranteed Minimum Pension equalisation	-	-	(0.4)
Surplus in schemes at the end of the period	142.0	163.1	125.0

The main financial assumptions and actuarial valuations have been updated by independent qualified actuaries under IAS 19 “*Employee benefits*”. The following financial assumptions have been used:

	26 weeks to 27 July 2019	26 weeks to 28 July 2018	52 weeks to 26 January 2019
Discount rate	2.20%	2.85%	2.90%
Inflation – RPI	3.10%	3.15%	3.15%
Inflation – CPI	2.10%	2.15%	2.15%
Salary increases	-	-	-
Pension increases in payment			
- RPI with a maximum of 5%	2.95%	2.95%	2.95%
- RPI with a maximum of 2.5% and discretionary increases	2.00%	2.00%	2.05%

10. 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.

11. Customer and other receivables

	27 July 2019	28 July 2018	26 Jan 2019
	£m	Restated £m	Restated £m
Gross Online customer receivables	1,415.0	1,340.4	1,417.2
Less: Refund liabilities	(60.7)	(48.4)	(44.5)
Net Online customer receivables	1,354.3	1,292.0	1,372.7
Less: Allowance for expected credit losses	(168.5)	(150.5)	(165.5)
	1,185.8	1,141.5	1,207.2
Other trade receivables	19.4	27.2	23.8
Less: Allowance for doubtful debts	(0.1)	(0.1)	(0.5)
	1,205.1	1,168.6	1,230.5
Prepayments	36.6	42.7	37.2
Other debtors	10.4	11.5	14.7
Amounts due from associates and joint venture	1.9	2.7	3.0
	1,254.0	1,225.5	1,285.4

No interest is charged on customer receivables if the statement balance is paid in full and to terms; otherwise balances bear interest at a variable annual percentage rate of 23.9% at the year-end date (2018: 22.9%).

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on a very low credit risk characteristic, representing management's view of the risk, and the days past due. The expected credit losses incorporate forward looking information.

The fair value of customer receivables and other trade receivables is approximately £1,150.0m. This has been calculated based on future cash flows discounted at an appropriate rate for the risk of the debt. The fair value is within Level 3 of the fair value hierarchy (refer to the Fair Value Hierarchy table in Note 26 of the January 2019 Annual Report).

Expected irrecoverable amounts on balances with indicators of impairment are provided for based on past default experience, adjusted for expected behaviour. Receivables which are impaired, other than by age or default, are separately identified and provided for as necessary.

12. Trade payables and other liabilities (current)

	27 July 2019	28 July 2018	26 Jan 2019
	£m	Restated £m	Restated £m
Trade payables	229.8	190.6	218.8
Refund liabilities	6.1	7.6	6.2
Other taxation and social security	64.1	60.2	68.3
Deferred revenue from the sale of gift cards	60.3	62.2	75.4
Share-based payment liability	0.4	0.9	0.2
Other creditors and accruals	238.1	250.6	236.8
	598.8	572.1	605.7

13. Corporate bonds

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

	Nominal value			Balance Sheet value		
	27 July 2019	28 July 2018	26 Jan 2019	27 July 2019	28 July 2018	26 Jan 2019
	£m	£m	£m	£m	£m	£m
Corporate bond 5.375% repayable 2021	325.0	325.0	325.0	327.6	328.1	327.5
Corporate bond 3.000% repayable 2025	200.0	-	-	200.0	-	-
Corporate bond 4.375% repayable 2026	250.0	250.0	250.0	287.0	278.0	277.7
Corporate bond 3.625% repayable 2028	300.0	300.0	300.0	300.0	300.0	300.0
	1,075.0	875.0	875.0	1,114.6	906.1	905.2

As explained in the January 2019 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 2019, the fair value of the Group's corporate bonds was £1,185.6m (July 2018: £953.3m, January 2019: £930.3m). The fair values are market values at the balance sheet date (IFRS 13 Level 1).

14. Share buybacks

Movements in the Company's issued share capital during the year are shown in the table below:

	2019 Shares '000	2019 £m	2018 Shares '000	2018 £m
Shares in issue at start of year	138,605	13.9	144,882	14.5
Shares purchased for cancellation in the period	(5,040)	(0.5)	(5,197)	(0.5)
Shares in issue at July	133,565	13.4	139,685	14.0

The total cost of shares purchased for cancellation as shown in the Statement of Changes in Equity was £280.2m (2018: £274.0m).

15. Analysis of net debt

	27 July 2019 £m	28 July 2018 Restated £m	26 Jan 2019 Restated £m
Cash and short term deposits	156.9	66.1	156.3
Overdrafts and short term borrowings	(114.8)	(42.6)	(122.3)
Cash and cash equivalents	42.1	23.5	34.0
Unsecured bank loans	(160.0)	(285.0)	(255.0)
Corporate bonds	(1,114.6)	(906.1)	(905.2)
Fair value hedges of corporate bonds	39.2	31.1	30.4
Net debt excluding leases	(1,193.3)	(1,136.5)	(1,095.8)
Current lease liability	(154.5)	(171.7)	(175.6)
Non-current lease liability	(1,176.3)	(1,231.9)	(1,190.7)
	(1,330.8)	(1,403.6)	(1,366.3)
Net debt including leases	(2,524.1)	(2,540.1)	(2,462.1)

16. Lease liabilities

	27 July 2019 £m	28 July 2018 Restated £m	26 Jan 2019 Restated £m
Maturity profile			
Less than 1 year	154.5	171.7	175.6
More than 1 year	1,176.3	1,231.9	1,190.7
Total	1,330.8	1,403.6	1,366.3

17. IFRS 16 transition note

Impact on profit for the period		26 weeks to 27 July 2019 Excluding IFRS 16 £m	Adjustments on adoption of IFRS 16 £m	26 weeks to 27 July 2019 £m
Total revenue		2,014.5	-	2,014.5
Cost of sales	(i)	(1,290.9)	41.3	(1,249.6)
Gross profit		723.6	41.3	764.9
Distribution costs		(250.5)	0.9	(249.6)
Administrative costs		(131.4)	-	(131.4)
Other gains/(losses)		(0.9)	(2.3)	(3.2)
Trading profit		340.8	39.9	380.7
Share of results of associates and joint venture		0.1	-	0.1
Operating profit		340.9	39.9	380.8
Finance income		0.1	-	0.1
Finance costs	(i)	(21.4)	(32.1)	(53.5)
Profit before taxation		319.6	7.8	327.4
Taxation	(v)	(59.1)	(1.4)	(60.5)
Profit attributable to equity holders		260.5	6.4	266.9

Impact on profit for the period		26 weeks to 28 July 2018 Excluding IFRS 16 £m	Adjustments on adoption of IFRS 16 £m	26 weeks to 28 July 2018 Restated £m
Total revenue		1,961.9	-	1,961.9
Cost of sales	(i)	(1,287.8)	38.9	(1,248.9)
Gross profit		674.1	38.9	713.0
Distribution costs		(214.9)	0.4	(214.5)
Administrative costs		(130.6)	-	(130.6)
Other gains/(losses)		1.8	(0.8)	1.0
Trading profit		330.4	38.5	368.9
Share of results of associates and joint venture		0.1	-	0.1
Operating profit		330.5	38.5	369.0
Finance income		0.1	-	0.1
Finance costs	(i)	(19.5)	(34.7)	(54.2)
Profit before taxation		311.1	3.8	314.9
Taxation	(v)	(56.9)	(0.7)	(57.6)
Profit attributable to equity holders		254.2	3.1	257.3

17. IFRS 16 transition note (continued)

Impact on Net assets and Retained earnings as at 27 January 2018

		27 January 2018	IFRS 16 Adjustment	27 January 2018 Restated
	Notes	£m	£m	£m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		558.9	-	558.9
Intangible assets		42.9	-	42.9
Right of use asset	(ii)	-	948.9	948.9
Associates, joint venture and other investment		2.1	-	2.1
Defined benefit pension asset		106.2	-	106.2
Other financial assets		48.1	-	48.1
Deferred tax assets	(v)	5.8	45.7	51.5
		<u>764.0</u>	<u>994.6</u>	<u>1,758.6</u>
Current assets				
Inventories		466.7	-	466.7
Customer and other receivables	(iv)	1,248.2	(55.7)	1,192.5
Right of return asset		23.4	-	23.4
Other financial assets		5.7	-	5.7
Cash and short term deposits		53.5	-	53.5
		<u>1,797.5</u>	<u>(55.7)</u>	<u>1,741.8</u>
Total assets		<u>2,561.5</u>	<u>938.9</u>	<u>3,500.4</u>
Current liabilities				
Bank loans and overdrafts		(180.0)	-	(180.0)
Trade payables and other liabilities	(iv)	(580.2)	30.5	(549.7)
Lease liabilities	(iii)	-	(165.8)	(165.8)
Other financial liabilities		(59.3)	-	(59.3)
Current tax liabilities		(95.3)	-	(95.3)
		<u>(914.8)</u>	<u>(135.3)</u>	<u>(1,050.1)</u>
Non-current liabilities				
Corporate bonds		(908.5)	-	(908.5)
Provisions	(iv)	(10.4)	(6.7)	(17.1)
Other financial liabilities		(12.4)	-	(12.4)
Lease liabilities	(iii)	-	(1,213.8)	(1,213.8)
Other liabilities	(iv)	(232.8)	212.9	(19.9)
		<u>(1,164.1)</u>	<u>(1,007.6)</u>	<u>(2,171.7)</u>
Total liabilities		<u>(2,078.9)</u>	<u>(1,142.9)</u>	<u>(3,221.8)</u>
NET ASSETS		<u>482.6</u>	<u>(204.0)</u>	<u>278.6</u>
TOTAL EQUITY		<u>482.6</u>	<u>(204.0)</u>	<u>278.6</u>

17. IFRS 16 transition note (continued)

Impact on Net assets and Retained earnings as at 28 July 2018

	Notes	28 July 2018 £m	IFRS 16 Adjustment £m	28 July 2018 Restated £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		555.6	-	555.6
Intangible assets		42.8	-	42.8
Right of use asset	(ii)	-	975.3	975.3
Associates, joint venture and other investment		5.1	-	5.1
Defined benefit pension asset		163.1	-	163.1
Other financial assets		53.4	-	53.4
Deferred tax assets	(v)	-	45.0	45.0
		820.0	1,020.3	1,840.3
Current assets				
Inventories		518.6	-	518.6
Customer and other receivables	(iv)	1,281.7	(56.2)	1,225.5
Right of return asset		24.0	-	24.0
Other financial assets		31.3	-	31.3
Cash and short term deposits		66.1	-	66.1
		1,921.7	(56.2)	1,865.5
Total assets		2,741.7	964.1	3,705.8
Current liabilities				
Bank loans and overdrafts		(327.6)	-	(327.6)
Trade payables and other liabilities	(iv)	(606.1)	34.0	(572.1)
Lease liabilities	(iii)	-	(171.7)	(171.7)
Dividends payable		(141.9)	-	(141.9)
Other financial liabilities		(2.5)	-	(2.5)
Current tax liabilities		(89.7)	-	(89.7)
		(1,167.8)	(137.7)	(1,305.5)
Non-current liabilities				
Corporate bonds		(906.1)	-	(906.1)
Provisions	(iv)	(10.2)	(7.4)	(17.6)
Other financial liabilities		(14.3)	-	(14.3)
Lease liabilities	(iii)	-	(1,231.9)	(1,231.9)
Other liabilities	(iv)	(220.7)	212.0	(8.7)
Deferred tax liabilities		(10.9)	-	(10.9)
		(1,162.2)	(1,027.3)	(2,189.5)
Total liabilities		(2,330.0)	(1,165.0)	(3,495.0)
NET ASSETS		411.7	(200.9)	210.8
TOTAL EQUITY		411.7	(200.9)	210.8

17. IFRS 16 transition note (continued)

Impact on Net assets and Retained earnings as at 26 January 2019

	Notes	26 January 2019 £m	IFRS 16 Adjustment £m	26 January 2019 Restated £m
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		564.9	-	564.9
Intangible assets		42.6	-	42.6
Right of use asset	(ii)	-	943.8	943.8
Associates, joint venture and other investment		5.1	-	5.1
Defined benefit pension asset		125.0	-	125.0
Other financial assets		41.5	-	41.5
Deferred tax assets	(v)	-	43.6	43.6
		<u>779.1</u>	<u>987.4</u>	<u>1,766.5</u>
Current assets				
Inventories		502.8	-	502.8
Customer and other receivables	(iv)	1,339.8	(54.4)	1,285.4
Right of return asset		23.4	-	23.4
Other financial assets		9.9	-	9.9
Cash and short term deposits		156.3	-	156.3
		<u>2,032.2</u>	<u>(54.4)</u>	<u>1,977.8</u>
Total assets		<u>2,811.3</u>	<u>933.0</u>	<u>3,744.3</u>
Current liabilities				
Bank loans and overdrafts		(377.3)	-	(377.3)
Trade payables and other liabilities	(iv)	(640.7)	35.0	(605.7)
Lease liabilities	(iii)	-	(175.6)	(175.6)
Other financial liabilities		(9.4)	-	(9.4)
Current tax liabilities		(85.1)	-	(85.1)
		<u>(1,112.5)</u>	<u>(140.6)</u>	<u>(1,253.1)</u>
Non-current liabilities				
Corporate bonds		(905.2)	-	(905.2)
Provisions	(iv)	(10.3)	(5.4)	(15.7)
Other financial liabilities		(9.2)	-	(9.2)
Lease liabilities	(iii)	-	(1,190.7)	(1,190.7)
Other liabilities	(iv)	(217.5)	208.4	(9.1)
Deferred tax liabilities		(2.8)	-	(2.8)
		<u>(1,145.0)</u>	<u>(987.7)</u>	<u>(2,132.7)</u>
Total liabilities		<u>(2,257.5)</u>	<u>(1,128.3)</u>	<u>(3,385.8)</u>
NET ASSETS		<u>553.8</u>	<u>(195.3)</u>	<u>358.5</u>
TOTAL EQUITY		<u>553.8</u>	<u>(195.3)</u>	<u>358.5</u>

17. IFRS 16 transition note (continued)

(i) **Income Statement**

Under the previous accounting standard for leases, IAS 17, lease costs were recognised on straight line basis over the term of the lease. The Group recognised these costs within cost of sales and distribution costs.

On adoption of IFRS 16 these costs have been removed and replaced with costs calculated on an IFRS 16 basis. The impact of removing these costs on the July 2019 Income Statement was £109.6m (2018: £108.0m).

Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Group has recognised the depreciation costs on the right-of-use asset in cost of sales. The impact of this adjustment in the July 2019 Income Statement was £67.4m (2018: £68.7m).

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to cost of Sales and distribution costs. The net impact of this adjustment in the July 2019 Income Statement was £42.2m (2018: £39.3m).

Under IFRS 16 Finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the July 2019 Income Statement was £32.1m (2018: £34.7m). Foreign exchange losses of £2.3m (£2018: £0.8m) on foreign currency denominated leases have been recognised in other gains and losses.

The net impact of the above adjustments to the July 2019 profit before tax was £7.8m (2018: £3.8m).

(ii) **Right-of-use Asset**

IFRS 16 has resulted in the recognition of a right-of-use asset. This asset represents the Group's contractual right to access an identified asset under the terms of the lease contract.

(iii) **Lease liability**

IFRS 16 has resulted in the recognition of a lease liability. This liability represents the Group's contractual obligation to minimum lease payments during the lease term.

The element of the liability payable in next 12 months is recognised as a current liability with the balance recognised in non-current liabilities.

(iv) **Working capital**

Under IAS 17 certain lease incentives, rent prepayments, accruals and similar amounts were held on the balance as part of working capital. Such balances are no longer recognised as all payments, lease incentives and related costs are reflected in either the right-of-use asset or the lease liability.

(v) **Taxation**

A deferred tax asset has been recognised on the transition to IFRS 16 representing the timing difference on the amounts taken to reserves.

18. Post balance sheet event

On 14 August the Group issued the £50m retained element of the £250m bond which had been issued in the 26 weeks to 27 July 2019.

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

19 September 2019

The full half year report and the results presentation can be found on the Company's website at www.nextplc.co.uk.

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Certain statements which appear in a number of places throughout this document are "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 the risks described in "Risks & Uncertainties" on pages 54 to 58 of the 2019 Annual Report and those matters highlighted in the Chief Executive's review; 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; insufficient consumer interest in NEXT Online; 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 update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.