

# TRADING STATEMENT

## Trading statement

Sales for the 26 weeks to 31 July 2010

### FIRST HALF SALES

Total sales in the first half of the year have been in line with our expectations. Retail like for like sales were slightly below the midpoint of our guidance but were enhanced by a much better than expected performance in Next Directory. New stand alone Home stores have also done well, performing significantly ahead of their target.

	March Guidance	May Guidance	H1 Actual VAT ex <sup>1</sup>
Total Next Brand sales (Retail & Directory)			+3.1%
Total Retail sales	+0.5% to +3.5%	+0.5% to +3.5%	+1.3%
Retail like for like (including direct) <sup>2</sup>			+1.7%
Retail like for like (excluding direct)	- 2.5% to +0.5%	- 2.5% to +0.5%	- 1.5%
Directory sales	+1.0% to +4.0%	+2.0% to +5.0%	+7.8%

### FIRST HALF MARGINS, COSTS AND PROFITS

This year's increase in the VAT rate reduced reported sales by 1.5%. However, the effect of this sales reduction on profits has been offset by gains in bought-in gross margin. This has been achieved without increasing selling prices. The End of Season Sale has gone well and is in line with our forecast clearance rates.

Cost control has been good across the business and overheads have declined as a percentage of sales. We believe that Group operating profit for the first half will be in the region of 15% up on last year.

### SECOND HALF OUTLOOK FOR SALES

There has been a noticeable cooling in retail demand in recent months, the mood amongst consumers is best characterised as cautious. We believe that consumer spending will be more restrained in the second half than in the first, as spending cuts and tax rises begin to take effect. We are budgeting for total Retail sales to be in the range -1.5% to +1.5% (implying like for like of -1.5% to -4.5%) for the second half, this is VAT exclusive and does not include direct sales. We expect that new space will add +3% to sales. This might sound overly cautious, however, it is important to remember that our reported sales will continue to be 1.5% less than actual sales to consumers as a result of this year's VAT rise and that comparisons become increasingly difficult against last winter's strong performance.

On a more optimistic note we believe the ongoing trend of increased online shopping combined with an improved service offer will allow Directory sales to continue growing in the range +4% to +8%. This means we are expecting total Next Brand sales in the second half to be in the range 0% to +3% up on last year.<sup>3</sup>

	Second Half Guidance VAT ex
Total Next Brand sales (Retail & Directory)	0% to +3%
Total Retail sales	- 1.5% to +1.5%
Retail like for like (excluding direct)	- 4.5% to - 1.5%
Directory sales	+4% to +8%

## **OUTLOOK FOR FULL YEAR PROFIT**

Based on achieving our sales budgets in the second half, which are within the above guidance, we believe that Group profit before tax will be in the range £535m to £560m. This would represent an increase over last year of 6% to 11% and is in line with current market expectations.

In the first half of this year we continued our policy of using surplus cash generated by the business to buyback shares. As a result of this policy, earnings per share will rise 6% faster than profits. In the context of our buyback program, we reiterate that our first use of cash is to invest in the business - we now expect capital expenditure of £135m this year. Dividend policy remains progressive and we confirm our intention to increase our annual dividend by at least 10% in the current year. Only once we have satisfied the needs of business investment and dividend policy will surplus cash be applied for buybacks.

## **SELLING PRICES IN 2011**

The combination of higher cotton prices, capacity tightening and a lower dollar costing rate mean that we will experience input cost price inflation in the first half of 2011. We aim to mitigate some of the effects of this with the development of new sources of supply and more rigorous negotiation. However, the combination of increasing cost prices and the January 2011 VAT rise mean that clothing retail prices are likely to rise in Spring 2011. We have yet to purchase the majority of our spring summer ranges, but we estimate that selling prices may rise between 5% and 8%.

## **ANNOUNCEMENTS**

We intend to release our Interim Results for the 26 weeks to 31 July on Wednesday 15 September.

END

<sup>1</sup>VAT inclusive sales were around 1.5% higher than VAT exclusive sales.

<sup>2</sup>Many retailers quote like for like sales including direct (internet) sales. We use the figure excluding direct sales but give the alternative measure including Directory for the sake of comparison.

<sup>3</sup>The ranges given refer to the comparable sales period of 26 weeks. Note that last year was a 53 week year.