

Company No. 00233462

JOHN LEWIS PLC

Financial Statements for the year ended 30 January 2021

JOHN LEWIS PLC
Financial Statements for the year ended 30 January 2021

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Company information

Directors:	Sharon White (Chairman) Bérangère Michel
Company Secretary:	Peter Simpson
Registered office:	171 Victoria Street, London, SW1E 5NN
Company number:	00233462
Independent auditor:	KPMG LLP 15 Canada Square London E14 5GL

JOHN LEWIS PLC

Strategic report for the year ended 30 January 2021

John Lewis plc ('the Group' or 'the Company') present their audited consolidated financial statements for the year ended 30 January 2021.

The Company is the principal trading subsidiary of John Lewis Partnership plc ('the Partnership'). It owns Waitrose Limited and other Partnership companies (see note 34). The Group trades as the Waitrose and John Lewis brands and has 80,900 employees – or Partners – for whom the Partnership is owned in Trust.

Review of performance

Key performance indicators

	2021 ¹	2020
Financial performance		
Revenue (£bn)	10.8	10.2
Borrowings (£m)	870.4	718.5
Liquidity (£bn)	2.0	1.4
(Loss)/profit before tax (£m)	(518.4)	145.3
Profit before PB, tax and exceptional items	129.6	68.8 ²
Financial KPIs		
Debt Ratio	3.4 times	3.9 times
Return On Invested Capital (ROIC)	6.7%	5.8%
Profit per average FTE (£)	3,500	3,500

¹ 2020/21 is a 53-week year and is reported on that basis. 2020/21 results have benefitted from an additional week's trade compared to 2019/20. The impact on profit before PB, tax and exceptional items is small.

² Restated to reflect the adoption of IFRS 16. Last year we reported alternative performance measures before IFRS 16 and our 2019/20 profit before PB, tax, exceptionals and IFRS 16 was £123m.

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Strategic report for the year ended 30 January 2021 (continued)

Performance summary

In a difficult year, the Group recorded a loss before tax of £(518.4)m, compared to a profit before tax of £145.3m in the previous year. This is the result of substantial exceptional costs of £(648.0)m, mainly the write down in the value of John Lewis shops owing to the pronounced shift to online, as well as restructuring and redundancy costs from store closures and changes to our head office. John Lewis shops are now held on our balance sheet at almost half the value they were before this year's and last year's write downs. Before the pandemic we judged that £6 in every £10 spent online with John Lewis was driven by our shops. The ratio has fallen to £3 in every £10.

Our profit before exceptionals was £129.6m. While this was up £60.8m on the previous year, the Group would have made a loss before exceptionals if it weren't for crisis-related support from the government. We were helped by support from the government of £190m, which was made up of business rates relief and furlough support (the latter claimed only to July 2020). Government funding has been used for the purpose it was designed for - to protect the business - and was critical to cover the direct operational costs relating to Covid-19 and the substantial hit to trading operating profit. The business rates relief has helped to keep us running and avoid more severe restructuring of the Group, which would have put more jobs at risk at a time when the high street is already under pressure. We are not out of the crisis yet and the economic environment remains extremely uncertain. Therefore, our current intention is to accept the business rates relief made available from April to June 2021, but we will keep this under review.

Trading operating profit was significantly challenged as the improvement seen in Waitrose, in part helped by the closure of the hospitality industry, was insufficient to cover the substantial decline in John Lewis as "non-essential" physical retailing closed temporarily. However, we improved our cost base with pension costs reducing by around £55m following the closure of the Group's defined benefit pension scheme in April 2020. There was also an almost £25m reduction in the depreciation of John Lewis shops - i.e. less wear and tear - owing to their significantly reduced value in our accounts through the exceptional write down.

We have used the most challenging year in the Group's modern history to lay the foundations for growth. Partners have pulled together in the most extraordinary way and really been there for each other and our customers when they needed us most. Here are some of our highlights from the past year...

- Waitrose.com has grown fourfold since February 2020, now taking around 240,000 orders a week, and stands as a £1bn sales business. This expansion was supported by the opening of a new customer fulfilment centre in Enfield last May, and the extension of online picking and delivery. We also trebled our 'Rapid' delivery service within the first month of lockdown. This has all made Waitrose.com the fastest growing online retailer, growing at more than double the market rate, according to Kantar.
- Johnlewis.com has grown significantly, up 73%, and this year was three quarters of the brand's sales, from 40% before the crisis. Services previously only available in store, such as nursery, home interiors advice, wine tasting and cookery courses, went online, with Partners supporting customers in a personal way via Zoom and apps. A Guinness World Record was broken with the largest ever virtual beauty event masterclass with Charlotte Tilbury.
- One of the benefits of being a Group with two brands is that more than 4,500 Partners from John Lewis worked at Waitrose during the various lockdowns, helping to keep the nation fed.
- Launched an on-demand grocery trial with Deliveroo, attracting younger new customers, where 3.5m households across 40 Waitrose shops have access to 650 Waitrose products, delivered in 30 minutes.

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Strategic report for the year ended 30 January 2021 (continued)

- Thirty new fashion and beauty brands have been launched in store and online in John Lewis, with a further 50 being introduced, many of them independent and British. We also successfully trialled a new furniture rental service with Fat Llama.
- Click & Collect is now available at over 900 locations, nearly 400 of which were added in nine weeks, up from 458 last year. This includes John Lewis and Waitrose shops and selected Booths and Co-op shops. Purchases from Boden, Sweaty Betty and Nespresso can also now be picked up through our network.
- John Lewis achieved its highest ever net promoter score of 70, up 4 points year on year, with many more customers recommending the brand than not. And Waitrose's customer satisfaction score rose 5.5 percentage points to 69%.
- Waitrose received *The Grocer* magazine's Store of the Week award 18 times and was named Supermarket of the Year by Which? in recognition of our response to Covid-19. John Lewis was named the number one brand in the UK for the fourth consecutive year in YouGov's Brand Rankings survey.
- We launched for the first time, a single, concrete, five-year plan for the Group, so that we can create a thriving business, loved by customers and Partners in years to come.

Pensions

Our accounting pension deficit reflects the gap between the market value of pension assets held by our defined benefit scheme and our pension liabilities - an estimate of the expected pension payments to be made to current and future pensioners in today's money. The deficit is highly sensitive to changes in financial and demographic assumptions, particularly changes in interest rates, as well as to returns on pension investments.

As at January 2021, the accounting pension deficit (net of deferred tax) was £542m. This reflects the pension deficit calculated in line with accounting standards, less the tax we expect to be able to recover in the future. Before deferred tax the pension deficit was £647m (pension liabilities of £7.44bn and pension assets of £6.79bn). The pension deficit is £230m higher than the year before, mainly due to lower interest rates and the government's decision to replace RPI (retail price index) with CPIH (consumer price index including owner occupiers' housing costs) from 2030 with only a limited transition, which together mean we are likely to have to put more money aside to cover future pension payments.

While the accounting pension deficit is shown on the Group's balance sheet, it does not drive the cash contributions that the Group makes to the pension scheme. That is decided every three years as part of the triennial actuarial valuation. The last triennial valuation as at 31 March 2019 was concluded in May 2020 and showed a deficit of £58m. The Group has agreed to make annual cash contributions of £10m until 2026 to eliminate the deficit.

Financing

We have managed cash tightly through the year, given both the uncertainty and volatility of trade and our inability to raise funds from issuing shares because we are employee-owned. In addition, we obtained new medium term bank loans of £150m and raised £136m from the sale and leaseback of 11 Waitrose shops.

We also deliberately slowed investment in the early months of 2020 to preserve cash, and our ability to spend was anyway limited by the practical impact of the pandemic. Consequently, our liquidity as at 30 January 2021 was unusually high with £1.5bn cash plus bank facilities of £500m. This cash position is required to help meet our obligations - we carry £2.1bn of total net debts (including pension and leases), with £575m of borrowings due to be repaid in the next four years (see note 7.1.2). It also

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Strategic report for the year ended 30 January 2021 (continued)

ensures that there is adequate funding available to withstand material volatility in trading and to allow us to invest in turning around the business.

The strength of our cash position has improved our debt ratio - how much we owe as a proportion of the cash we generate each year - to 3.4 times from 3.9 times last year. We expect this to reverse in 2021/22 as we invest in our turnaround before returning to an improving trajectory the following year. In the medium term we continue to target a debt ratio of around three times.

Net finance costs decreased by £4.0m to £157.3m, principally driven by lower long leave finance costs arising from volatility in market driven assumptions, offset by additional interest costs on borrowings relating to the new term loans obtained during the year.

Ethics and sustainability

We seek to achieve positive change, championing equality, sustainability and wellbeing. Building strong relationships with people inside and outside of our business is key to delivering our vision for ethics and sustainability and long-term business success. We respect the interests of people touched by our business - our Partners, customers, suppliers and wider community. It is important we listen and respond to their concerns, are honest in our expectations and fair in how we communicate our performance. Our ethics and sustainability highlights from the past year include the following:

- We were among the first UK businesses to pilot and roll out rapid lateral flow Covid-19 testing for our Partners, working with the Department of Health and Social Care. We have repurposed space at our head office in Bracknell into a vaccination centre run by the NHS where 35,000 people have been vaccinated up to the beginning of April 2021.
- We brought forward our ambition for our entire operations to be net zero carbon by 15 years to 2035. We also opened our first on-site biomethane gas filling station for our Waitrose heavy goods vehicles at our Bracknell Distribution Centre and added two more at our Milton Keynes distribution hub. Made from food waste and food processing waste materials rather than diesel, biomethane reduces CO2 emissions by 80%. Our biomethane investment was recognised by the 2020 Motor Transport Awards, winning the Low Carbon Award.
- John Lewis continued the roll out of its free supplier engagement programme, Better Jobs, bringing the total number of UK supplier completions of the survey to 49, and over 2,600 employee responses have been collected. Now trialling with suppliers in China, it replaces traditional ethical audits and aims to create more rewarding and enriching jobs for workers.
- We reopened our textiles factory, Herbert Parkinson, during the first lockdown, to make 12,000 medical scrubs for free for the NHS, plus thousands of reusable face masks for Partners. John Lewis also donated fabric to community groups sewing further hospital scrubs. We also delivered almost 2,000 care packages to over 500 NHS hospitals and mental health trusts, which included 110,000 much-needed non-clinical essentials and gifts to NHS staff.
- Waitrose set up a new programme with FareShare, Farm to Family, becoming the first UK supermarket to take surplus food straight from our largest suppliers and farms to the plates of those in need. Waitrose also became a member of the Child Food Poverty Task Force led by footballer Marcus Rashford. John Lewis also donated nearly 5,000 items of warm clothing to Home-Start to distribute to families.

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Strategic report for the year ended 30 January 2021 (continued)

- Two Partner advisory groups were set up to support diversity and inclusion: the Black Partner Advisory Group, which acts as a consultative body and sounding board to test ideas and contribute to improving the experiences of Black Partners, and the Part-Time Partner Advisory Group, which improves progression and development for part-time Partners, and addresses issues around cultural bias, pay and performance.

In 2020 we completed a full review of our Ethics and Sustainability Strategy. The Group takes an integrated approach to being a more sustainable, ethical business. Focusing on six areas, each is critical if we are to protect the planet and respect and support the interests of all those touched by our business.

People in supply chains Protecting the rights of workers in our supply chain and championing worker voice	Agriculture, aquaculture, fisheries and raw material sourcing Guaranteeing a fair deal for producers, and supporting them to farm with nature	Circularity and waste Designing with circularity in mind and eradicating waste
Climate action Reducing greenhouse gas emissions in operations and supply chain	Health, nutrition and wellbeing Enabling customers to lead a healthy and happy life	Social impact Sense of connection and giving back through communities and charitable causes

Alongside our five-year Partnership Plan, we also launched several new ethics and sustainability commitments:

- We brought forward our ambition to be net zero carbon across our entire operations by 2035. This will be supported by removing fossil fuels across our entire transport fleet by 2030. All our heavy goods vehicles will also be converted to biomethane gas, which is made of food waste, by 2028.
- Waitrose will ensure greenhouse gas emissions from our UK farms are net zero by 2035.
- We will halve food waste in Waitrose's supply chains, and help halve our customers' food waste by 2030.
- All product categories¹ in John Lewis will have a 'buy back' or 'take back' solution by 2025.
- All key raw materials in our own-brand products will be from sustainable or recycled sources by 2025.
- We will develop sustainable rental and resale options for our John Lewis customers.

¹ Product categories: Home Furnishings, Home Accessories, Gift Cook & Dine, Technology, Menswear, Womenswear, Beauty, Childrenswear

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Strategic report for the year ended 30 January 2021 (continued)

In February 2020, the Corporate Responsibility Group was replaced with a new Ethics and Sustainability Committee, chaired by the Chairman. During the year, the Ethics and Sustainability Committee focused on ethics and sustainability as a core element of the Group's purpose and embedding this into the Partnership Plan. It is anticipated that the Committee will play a key role in ensuring that the ambitions and commitments set in the areas of ethics and sustainability are embedded into all strategic outcomes, the brand plans for Waitrose and John Lewis, and that progress is rigorously tracked against performance to ensure the Group delivers visible and impactful initiatives and positions that resonate with customers and Partners.

Read more about our Ethics and Sustainability Strategy and performance in our *2020/21 Ethics and Sustainability Progress Report* or at www.johnlewispartnership.co.uk/csr

Task Force on Climate-related Financial Disclosures

Climate change is the single greatest challenge facing our planet today. We fully support the Task Force on Climate-related Financial Disclosures (TCFD) and its recommendations and are committed to assessing the impacts of climate risks and opportunities across our operations, physical estate and supply chains. This year, we have focused on establishing our internal process to manage climate risks, opportunities and reporting structure which we plan to further enhance and improve as we evolve along the TCFD journey. We aim to provide full disclosure on the Group's climate risks and opportunities via the TCFD framework by April 2022.

During the financial year, climate-related risks and opportunities were managed by operational teams as part of their day-to-day activities in delivering the Group's current strategy. Any significant matters would be escalated via the Ethics and Sustainability Committee to the Executive Team's leadership teams and to the Board, if required.

Climate change is included within the Group's principal 'External Environment' and 'Ethics and Sustainability' risks. Quarterly review and challenge of the Group's principal risks are performed by the Executive Team and actions taken are reported to the Audit and Risk Committee and the Board. For more details on the 2020/21 risk governance structure see page 49 of the Partnership's Annual Report and Accounts.

Addressing our climate risks and opportunities has so far been embedded in our Climate Action Strategy which forms part of our overarching Ethics and Sustainability Strategy. This has increased our knowledge of the climate risks and opportunities faced by the Group across our own operations and supply chain and has meant that we continue to invest in measures to mitigate the Group's climate change impact, including carbon reduction and energy efficiency programmes. See our *2020/21 Ethics and Sustainability Progress Report* for more detail.

We already measure a number of indirect emissions across multiple categories and continue to look to increase the scope of data we collect. We recognise the need and will continue to look beyond our own direct operations and understand and reduce indirect emissions, such as emissions produced by associated companies that work with us as part of our value chain. Starting with our agricultural supply chains we have committed to ensure net zero greenhouse gas emissions from our UK farms supplying own-brand products by 2035.

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Strategic report for the year ended 30 January 2021 (continued)

The Group continues its commitment to reducing its carbon emissions and energy consumption. In 2020, we brought forward our target for our entire operations to be net zero carbon by 15 years to 2035. We have also committed to reducing our absolute energy use by 25% in 10 years from a 2018 baseline and continue to invest in energy efficiency and sustainable energy sources across our operations. More on our targets and performance against each can be found in our *2020/21 Ethics and Sustainability Progress Report*.

In 2021, as part of our Climate Action Strategy, the Group will undertake detailed assessments to identify our short, medium and long-term climate risks and opportunities. The Group will conduct scenario analysis to strategically evaluate the business implications of these key climate-related risks and opportunities enabling us to design mitigation actions for the future.

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Strategic report for the year ended 30 January 2021 (continued)

Section 172 (1) Statement and Statements on engagement with employees, suppliers, customers and others

This section acts as the Company's Section 172(1) statement. In accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this section also constitutes the Company's statements on engagement with, and having due regard to the interest of our Partners (employees) and other key stakeholders.

The Company's parent company is John Lewis Partnership plc ('the Partnership'), which is owned in Trust for the benefit of its members, the Partners employed in the Partnership. Whilst being Directors of John Lewis plc, and having acted in a way they consider is most likely to promote the success of the Company, the Directors on the Board are also members of the Partnership's Executive Team which manages the Partnership's business as part of the Partnership's governance structure. In carrying out their duties, the Directors have had in mind the Principles of the Partnership set out in the Partnership's Constitution (available online at www.johnlewispartnership.co.uk). These Principles are consistent with the requirements of Section 172(1) in that they say how the Partnership - including the Company - should operate and how it should conduct its relationships with Partners (both as the Company's members and as employees), customers, suppliers and other stakeholders and the communities in which it operates. Further information on decision-making and engagement with stakeholders in the Partnership can be found in the Partnership's Annual Report and Accounts available at www.johnlewispartnership.co.uk

The purpose of the Partnership is set out in Principle 1 of the Constitution: "The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business". Principle 3 of the Constitution says that "the Partnership aims to make sufficient profit from its trading operations to sustain its commercial vitality, to finance its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose". These two Principles are the core fundamentals that underpin the Company's strategic direction. In setting the strategic direction of the Company, Directors also take into account the principal risks facing the business.

Decision-making at the Board

All matters which under the Company's governance arrangements are reserved for decision by the Directors, are presented at Board meetings. Directors are briefed on the background and reasons for any proposal and the associated costs, benefits and risks, as well as any potential impacts and risks for our customers, Partners and other stakeholders including our suppliers, the community and environment and how they are to be managed. The Directors take these factors into account before making a final decision which together they believe is in the best interests of the Company and its members - our Partners.

Stakeholders

Our key stakeholders are our Partners, who are at the heart of our purpose and work in service of our customers. We are also focused on responding to the needs of, and building long-term relationships with, our customers. Other key stakeholders are the producers and suppliers who we purchase goods and services from, and the communities and environments in which we operate.

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Strategic report for the year ended 30 January 2021 (continued)

Section 172 (1) Statement and Statements on engagement with employees, suppliers, customers and others (continued)

Long-term sustainability

We aim to make sufficient profit to sustain the Group's commercial vitality. This is balanced against the needs of our customers, Partners and other stakeholders and the community to ensure we are conducting all our business relationships with integrity. The long-term sustainability of the Partnership is at the forefront of decision-making, particularly in response to the challenging conditions in retail over the past three years and those facing the Group and its stakeholders as a result of the Covid-19 pandemic.

Partners

Our Partners are central in the differentiation of our business. Spedan Lewis talked about not just sharing profit, but also sharing knowledge and sharing power. The Constitution empowers all Partners to shape the future of the Group. Hearing Partner opinion and ensuring this is taken into account in decision-making is intrinsic to our employee ownership model and our long-term sustainability and success. Properly incorporating Partner views into Board decision-making is recognised as essential to the future of the Group as a modern, sustainable, purpose-led business. For example, in 2020 Partners were consulted and provided ideas and feedback throughout the development of the Partnership Plan.

The Directors engage with Partners in many different ways, including regular dialogue, summaries of Partner opinion prepared by the independent Democratic Vitality team, vlogs, podcast and email updates, the Group's intranet and through the independent *Gazette*, and the effective and innovative use of opinion tools. Further information on the engagement methods in the Group, which are used by the Company's Directors, and on the democratic structures used to channel Partner views are on pages 43 and 109 to 110 respectively of the Partnership's Annual Report and Accounts, available at www.johnlewispartnership.co.uk

Customers

The Group aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service. Our customer research team is the voice of the customer, understanding how customers and potential customers think and feel. We gather their experiences and expectations through surveys, face-to-face research, customer feedback to Partners and contact centres and external data sources. Regular customer reports are produced for management and are regularly shared with Directors. In 2020, a prime example of this work was the extensive research conducted with customers to shape the Group's purpose, with ambitions to champion equality, wellbeing and sustainable living, for the good of customers, Partners, suppliers and society.

Producers and suppliers

The Group aims to conduct all its business relationships with integrity and courtesy, and scrupulously to honour every business agreement. We work closely with producers and our supply chain and have established subsidiary companies in India and Hong Kong to allow us to work more closely with many of our producers, and directly receive feedback from them. The Company has taken measures to prevent modern slavery and human trafficking in its business and supply chains. Further information is available at www.johnlewispartnership.co.uk/csr During 2020, to drive more meaningful and sustainable positive behaviour change in its supply base, the Company continued the roll-out of a free supplier engagement programme called Better Jobs, bringing the total number of UK supplier completions of the framework since launch to 49, with over 2,600 employees completing the survey.

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Strategic report for the year ended 30 January 2021 (continued)

Financial stakeholders

The Company seeks to make information available to financial stakeholders, including our relationship banks and bondholders, as part of information provided about and by the Group. This includes contact details should stakeholders wish to discuss anything directly. Directors regularly participate in financial updates and announcements made by the Group, which gives stakeholders an opportunity to engage directly with them. In addition, the Head of Treasury & Corporate Finance held one-to-one meetings with various relationship banks and bondholders throughout the year.

Community and environment

The Partnership's Constitution requires Directors to take all reasonable steps to minimise any detrimental impact the Company's operations may have on the environment. The Group aims to contribute to the wellbeing of the communities where it operates. The Company also supports a range of charitable and community activity, based on customer input and coordinated through branches, and makes a regular donation to the John Lewis & Partners Foundation, which supports projects in communities where products for sale by the Company are produced. This continued, and in many ways was strengthened, during the pandemic in 2020. In addition, a Community Investment Fund was created to distribute funds to charities working in communities that would no longer be served by our shops. The decision on which charities to fund was taken by a panel which included shop-based Partners.

Business conduct

The Company aims to conduct all its business relationships with integrity and courtesy, and scrupulously to honour every business agreement. Its reputation for its standard of business conduct is a key driver of customer perception of its brands. Accordingly all Partners are expected to contribute to the maintenance of high standards of business conduct, and the Constitution provides a framework for all Partners to do this. It includes specific Rules for Partners relating to maintaining honesty, fairness, courtesy and promptness in their business conduct.

Acting fairly as between the Company's owners

The Company forms part of a Group which is held in Trust for the benefit of both its current and future Partners, and their interests are at the forefront of Board decision-making.

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Strategic report for the year ended 30 January 2021 (continued)

Principal risks and uncertainties

John Lewis plc's principal risks and uncertainties are in line with those of the Partnership.

I EXTERNAL ENVIRONMENT (No movement) <i>The previously reported Operating Model Strain risk has been included within External Environment risk, recognising that the changing external socio-economic pressures are the root cause of the strain in many parts of the Group.</i>		
Risk	Mitigations in place	Action taken and planned
<p>External environment changes impact delivery of business-as-usual (BAU) operations or strategic objectives.</p> <p>Key causes and consequences Reduced margins in traditional retail, Covid-19, Brexit, Government policy changes, regulatory changes, climate change, social movements and a weakened economy.</p>	<ul style="list-style-type: none"> • Horizon scanning for indicators of change. • Monitoring of business and market performance by the leadership and Executive Team. • Regular review of the potential impacts and opportunities of Brexit and Covid-19 to course correct by leadership supported by the crisis management response team. • Business Continuity framework in place. 	<ul style="list-style-type: none"> • Partnership Plan launch and proposed new operating model. • Ongoing delivery of the Partnership Plan. • Ongoing crisis response, see page 19. • Assess and report climate change risks as per the TCFD framework including scenario analysis to assess key climate-related physical and transition risks. See page 9. • Supporting vulnerable communities, in line with our strategic objective to be a force for positive change, including work with Home-Start and FareShare charities through our Give A Little Love campaign. See also our <i>2020/21 Ethics and Sustainability Progress Report</i>.
2 PROPOSITION (Decreased)		
Risk	Mitigations in place	Action taken and planned
<p>Failure to deliver profitable, market-leading propositions to inspire our customers and maintain competitive advantage.</p> <p>Key causes and consequences Lack of clarity on customer strategy, service ambition, investment prioritisation and/or availability, and competitor disruption could negatively impact the customer proposition and its competitiveness.</p>	<ul style="list-style-type: none"> • Continuing to secure value for all of our customers through our price matching commitments. • Regular strategic risk review and monitoring by leadership and the Executive Team. • Regular strategy implementation, customer and performance metrics evaluation. 	<ul style="list-style-type: none"> • Differentiation in online services and experiences, such as virtual online styling, the My John Lewis events, Waitrose Cookery School and through new partnerships such as furniture rental. • Continued differentiation on products such as Waitrose No.1 and new or exclusive brands and products in John Lewis, as well as a broadening financial services product range, such as providing customer credit. • Significant expansion of Waitrose online capacity. • Better together - unlocking further value between our brands. • Customer segmentation refresh, including focus on targeted John Lewis customer archetypes.

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		<ul style="list-style-type: none"> • Growth strategy across Home and Nursery, with Technology a central part of our offer .
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3 PARTNER DIFFERENTIATION (New)

*The previously reported **Ownership Model Strain** risk has been reviewed in detail and removed.*

<p>Risk</p> <p>The responsibilities and benefits of membership are not sufficiently felt and experienced by Partners and/or do not drive a distinctive and better business in service of our purpose.</p> <p>Key causes and consequences</p> <p>Lack of clarity, understanding and knowledge of responsibilities and rewards of being a Partner, as well as not delivering against the expectations of membership could lead to Partners not feeling a differentiated experience.</p>	<p>Mitigations in place</p> <ul style="list-style-type: none"> • Partnership values. • Earning membership. • Partner handbook. • The Constitution. • Democracy structure and channels, including Council and Forum. • Leadership engagement and communications through specific change via democracy channels. 	<p>Action taken and planned</p> <ul style="list-style-type: none"> • New Partner strategy development and delivery. • Articulation and clarity of the Partnership’s purpose. • Performance management. • Raising lowest rates of pay to voluntary Real Living Wage. • Total review of reward including ensuring pay differential between levels.
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4 INFORMATION SECURITY (No movement)

<p>Risk</p> <p>Loss of key customer, Partner and/or commercially sensitive data leading to financial, regulatory, legal, operational and reputational issues.</p> <p>Key causes and consequences</p> <p>External and internal threats, malicious software variants, theft/inappropriate use of data, increased remote working due to the pandemic resulting in loss of data, business disruption, reputational</p>	<p>Mitigations in place</p> <ul style="list-style-type: none"> • Information Security and Data Protection Policy, Standards, controls and monitoring. • Partner training. • Robust network security monitoring and regular testing to assess network or system vulnerabilities. • Security impact assessments undertaken for projects to ensure compliance with security standards. • Security Operations Centre monitoring and responding to threats. 	<p>Action taken and planned</p> <ul style="list-style-type: none"> • Programme of security enhancements to the systems and controls that hold Partner, customer and business data to improve resilience, through the programme of IT Security investment. • Improvements to prevent, detect and respond to external cyber attacks. • Information Security Improvement campaigns. • Further mature cyber security capability.
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<p>damage, unforeseen costs and regulatory consequences.</p>		
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5 LIQUIDITY (New)

Previously reported as Pension Obligations risk.

Risk	Mitigations in place	Action taken and planned
<p>Insufficient cash when needed to support operating cash flows, pay our debts or invest for the future.</p> <p>Key causes and consequences Trading results volatility/decline, inability to secure new funding or refinance existing arrangements, increase in pension deficit, acceleration of debt and/or poor liquidity planning leads to insufficient cash available to pay debts as they fall due or to invest in the Partnership Plan.</p>	<ul style="list-style-type: none"> • Treasury Standard and controls. • Pension risk and funding strategy. • Regular review and monitoring of: liquidity and covenant position, Treasury minimum targets, investment and operational delivery, and pension valuation assumptions through internal and external monitoring. • Monitoring of monthly performance review by the Executive Team. 	<ul style="list-style-type: none"> • Partnership Plan funding review. • Refinancing. • Pension long term derisking framework agreed. • Triennial valuation completed. • Closed the defined benefit section of the pension scheme. • Partnership Plan performance tracking. • One-to-one and group meetings with financial stakeholders. • Covid-19 response - see page 19 ('Protecting finances' section below).

6 CHANGE DELIVERY (Decreased)

Risk	Mitigations in place	Action taken and planned
<p>Change does not realise the desired benefits and drives unforeseen cost and consequences.</p> <p>Key causes and consequences Business, operating model and change complexity combined with the volume and pace of change could result in increased costs, disruption to trade and a poor customer and Partner experience.</p>	<ul style="list-style-type: none"> • Change management toolkit, reporting and governance. • Outcome delivery accountability. 	<ul style="list-style-type: none"> • Implementation of the new change governance and assurance structure to support Partnership Plan delivery. • Embed and mature change framework, tools and reporting to support decision-making. • Align portfolio and change processes. • Develop portfolio transformation reporting and tracking.

7 CUSTOMER EXPERIENCE (New)

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<p>Risk Customers do not receive differentiated, excellent customer service across touchpoints.</p> <p>Key causes and consequences Systems, data, processes, third parties and Partner-related issues impact service quality and convenience in store and online resulting in declining customer loyalty.</p>	<p>Mitigations in place</p> <ul style="list-style-type: none"> • Service principles and standards. • Branch Operational Procedures. • Partner training. • Service agreements with third parties. • Regular 'Customer Voice' meeting. • Customer insight data and KPIs. 	<p>Action taken and planned</p> <ul style="list-style-type: none"> • Prioritisation of safety and service of customers through Covid-19 with social distancing measures, priority shopping for the elderly, disabled, vulnerable and NHS customers, and increased online delivery availability. See page 19. • Customer Voice Group and Customer Experience Cross Functional Task Force established. • Customer pain points improvement projects. • Culture of Service including school of service and service principles.
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8 REGULATORY NON-COMPLIANCE (No movement)

<p>Risk Failure to comply with key regulatory requirements.</p> <p>Key causes and consequences Lack of awareness, understanding or control of key regulatory requirements could cause legal, reputational and/or financial damage which, depending on scale, could cause major trading impacts.</p>	<p>Mitigations in place</p> <ul style="list-style-type: none"> • Policies and standards. • Partner training and monitoring of completion. • Clear Executive accountability for key regulatory areas including for personal data security and privacy across the Group. • Horizon scanning of new/changing regulation and potential impact and response. 	<p>Action taken and planned</p> <ul style="list-style-type: none"> • Data owners continue to work with Information Security teams to develop and deliver data protection priorities. • New HR system to support improved functionality for HR compliance. • Continue to embed and strengthen new supplier assurance processes and systems. • High risk regulatory assurance provision.
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9 ETHICS AND SUSTAINABILITY (New)

Recognising its importance in delivering on our proposition goals and prominence within the Partnership Plan.

JOHN LEWIS PLC

<p>Risk</p> <p>Failure to live up to our ethics and sustainability ambition.</p> <p>Key causes and consequences</p> <p>Central to the Partnership Plan and our purpose, rising stakeholder expectations, broad and complex supply chains and the need to invest in systems, processes, data and people. Falling short could cause reputational damage through loss of trust, with knock-on effects on trading performance.</p>	<p>Mitigations in place</p> <ul style="list-style-type: none"> ● Ethics and Sustainability Committee chaired by the Chairman and attended by other members of the Executive. ● Responsible Sourcing Code of Practice. ● Factory audits programme. ● Product certification standards and targets. ● Traceability systems. ● Dedicated agricultural supply chains in key product categories. 	<p>Action taken and planned</p> <ul style="list-style-type: none"> ● Ethics and Sustainability Strategy embedded in the Partnership Plan. ● Customer propositions such as the Waitrose & Partners Foundation, Unpacked and BeautyCycle. ● Continue to improve visibility, monitoring and ethical compliance of the supply chain. ● Governance and ways of working review. ● Invest in sustainable propositions. ● Improve communication and engagement with ethics and sustainability activity. ● 2035 net zero carbon roadmap and investment plan. ● Climate change scenario analysis to define targets. See page 9.
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I0 PARTNER WELLBEING (New)

Reflecting the current internal and external pressures on Partners' wellbeing, fatigue and engagement.

<p>Risk</p> <p>Partners' sense of wellbeing is threatened by societal and organisational uncertainty and change.</p> <p>Key causes and consequences</p> <p>Pressure on Partners relating to the pandemic through health and broader wellbeing, alongside significant internal change in response to the evolving retail market and low utilisation of support available leads to deterioration in Partner wellbeing, increased absence, loss of talent and failure to deliver the Partnership Plan.</p>	<p>Mitigations in place</p> <ul style="list-style-type: none"> ● Wellbeing support services such as Partner Support, Partnership Health Services, Personnel Policy and Advice, Covid-19 and Head Office Transformation intranet sites and Unmind. ● Mental health awareness training for People Managers. 	<p>Action taken and planned</p> <ul style="list-style-type: none"> ● Further understanding through Partner surveys. ● Increase Partner engagement in psychological self-help tools like Unmind. ● Simplify existing wellbeing information and improve accessibility. ● Increase awareness and reach through <i>Five Ways to Wellbeing</i> framework and Wellbeing Champions.
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Covid-19

Due to the significance of Covid-19, a summary of the key impacts and how we have managed these over the period are detailed below.

Safety first: Our crisis response team has been in place throughout the year and continues to be operational, working to a 'safety first' posture at all times. Throughout the year extra precautionary measures have been introduced in our stores including limiting the number of customers in store, prioritising access for our elderly, disabled, vulnerable and NHS customers, dedicated marshals to monitor social distancing, screens at checkouts, protective equipment, cashless payments, wearing appropriate face coverings and shopping alone being encouraged. Social distancing measures and protective equipment are also in place across our supply chain and offices. The Group will continue to follow our national public health bodies' guidance to implement contingency mitigations as appropriate and do the best possible for our customers, Partners and community groups. The safety and wellbeing of our Partners and customers continues to be our top priority. In addition, the Group has supported the UK Government in developing pioneering workplace rapid flow testing, initially rolling this out in our supply chain and now across our stores. We are supporting the vaccine roll out, with our Bracknell sports and leisure centre being used by the NHS.

Securing our supply chain and operations to feed the nation: Our supply chain has been under immense pressure to meet consumer demand, both in store and online. We continue to support our suppliers, add resilience to our distribution network and prioritise the most important goods to serve our customers, whilst not compromising on our sourcing principles. Our John Lewis department stores have been temporarily closed several times during the year and the Partners supporting these shops were, where possible, redeployed to support areas of greatest need across the Waitrose supply chain, shops and online operations in order to support feeding the nation.

Protecting finances: With the repeated temporary closure of John Lewis department stores and the impact of social distancing safety measures in Waitrose stores, a number of steps have been taken to maintain sufficient liquidity including reducing capital and investment expenditure, deferring or cancelling discretionary spend such as marketing, and negotiating financing arrangements (taking out medium term bank loans totalling £150m, extending the term on our revolving credit facilities, as well as negotiating a more favourable financial covenant package). Also see the Viability Statement on page 20. In addition, the joint HM Treasury and Bank of England Covid Corporate Financing Facility, business rates holiday and wages support have been critical to maintain liquidity through this volatile period.

JOHN LEWIS PLC

Strategic report for the year ended 30 January 2021 (continued)

Brexit

During the year, the Group prepared for a worst-case, no-deal scenario ahead of the end of the transition period on 31 December 2020 as this would have caused the greatest disruption to Partners, customers and trade. Contingency plans were regularly reviewed and, to the extent required, mobilised ahead of 31 December 2020 for our key areas of Brexit risk: clearing customs, currency exposure, access to EU labour and tariffs.

The risk of delays in supply chain due to challenges in clearing customs was partially mitigated by high Christmas stock levels, additional resource to process customs declarations and alternative sourcing. Currency exposure on the depreciation of Sterling, creating a rise in cost of goods, was managed through the Group's hedging currency programme. The labour risk was mitigated by providing support to EEA Partners seeking settled and pre-settled status and increased availability in the labour market due to Covid-19 restrictions. The EU-UK Trade and Cooperation Agreement supported mitigation of the tariff risk.

In 2021, as we navigate new processes under the recently signed EU-UK Trade and Cooperation Agreement and new UK regulations, the most significant emerging risks we are actively managing relating to Brexit at the time of writing are: clearing customs; some border delays on goods being received; and uncertainties around new regulations especially as the easement periods end, in particular the permanent arrangements for delivering online sales into Northern Ireland.

Viability Statement

The UK Corporate Governance Code (the Code) requires Directors of all Companies with a Premium Listing to make a statement on the viability of their business within their annual reports. Although the Group is not required to adhere to the requirements of the Code, in the case of the Viability Statement we believe that the Code provides the best framework for the Directors to communicate how they have assessed the Group's ability to remain commercially viable in line with best practice, and to show how they continue to uphold their constitutional obligation to protect the long-term health of the Group. This takes into account the Group's current position (pages 32 to 101); current strategy (pages 4 to 13 and 24 to 26); and risks and uncertainties (pages 14 to 20).

Assessment period

The Partnership Plan is designed to develop our business over the long term and is underpinned by work in recent years to strengthen the Group's balance sheet and financial sustainability, with £2.0bn in total liquidity available, at the date of approval of these financial statements. As shown below, a wide variety of time horizons are relevant to the management of the Group:

	1	2	3	4	5	8	10	10+
Strategy	Five-year Partnership Plan							
Forecasting and budgeting	Detailed budget	Currency and commodity hedging forecasts						
Financial Strategy and Funding	Annual Funding and Liquidity Plan		Funding the Partnership Plan			Long-term financial strategy		
Asset lives	Majority of lease payments subject to market review every five years							
	Useful economic lives for intangible assets							
	Useful economic lives for larger tangible assets							
Employee benefit liabilities*						Long leave		Pensions

*Weighted average duration

JOHN LEWIS PLC

Strategic report for the year ended 30 January 2021 (continued)

The Directors have assessed the Group's viability over a three-year period to January 2024. Reflecting the speed of change in the retail environment, a three-year period of assessment is deemed an appropriate timeframe as it captures the period over which detailed budgeting and forecasting is provided for planning purposes.

Current climate

Given the pace of change in the retail sector, and the recent economic uncertainty due to Covid-19, we expect to see significant volatility over the short-term. This includes the reopening of many John Lewis stores following the lockdown in early 2021/22. We will continue to take necessary measures to protect the health and safety of customers and Partners, manage supply chain challenges due to the rise of online and redeploy Partners to grocery to meet increased demand.

Downside modelling

In assessing the viability of the Group, the Directors considered the Group's revenue, profit, net assets and cash position under the budget and the Partnership Plan approved by the Partnership Board. In the context of a challenging retail sector, these took account of factors such as the longer term impact of Covid-19, increased competition, and sustained cost pressures. A severe but plausible downside scenario was applied to incorporate additional sensitivities overlaid on the budget and Partnership Plan. These were based on the potential financial impact of the Group's principal risks and the specific risks associated with Covid-19. These are the most relevant risks when assessing the Group's viability, and scored highest on the combined scale of impact and likelihood.

The downside scenario and how it corresponds to the principal risks and Covid-19 risks (pages 14 to 19), have been assumed to all occur over the three-year period of assessment in order to assess the Group's ability to withstand multiple simultaneous challenges, and also assume that no new financing is obtained and the credit facilities are not renegotiated. For the basis of the assessment, it is assumed that all Group borrowings are repaid at their maturity date and that no further refinancing or funding is undertaken. The potential impacts of Covid-19 have been built into the downside scenario but the potential impact of further one-off 'black-swan' events that cannot reasonably be anticipated are not included.

The downside detailed above, is deemed by the Directors to provide a severe, but plausible, stress test on our underlying viability. This includes a significant reduction in year 1 performance as a result of the impact of Covid-19 and reduced trading performance across both brands, resulting in a pre-mitigation cash reduction to Plan in excess of £1.7bn over the three years. Uncertainty exists in respect of the potential impact of Covid-19 in 2021/22.

The downside scenario assumes lockdown conditions continue into Q2 2021/22 and that John Lewis stores are closed during this period, with online sales remaining operational but with reduced demand. Waitrose remains operational both in store and online, albeit with sales and margin pulled back from current trading levels which are significantly ahead of pre-Covid-19 levels in 2019/20. This is followed by a further, deeper recession throughout the assessment period resulting in a further reduction in sales, as well as a reduction in margin across both brands and a number of one-off events, e.g. a regulatory and data security breach, higher impairment charge, increasing pension deficit and project under-delivery. The downside modelled has a significant adverse impact on sales, margin and cash flow. The impacts of the downside adjustments have been reviewed against the Group's projected cash position and financial covenants over the three-year viability period. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable.

Mitigating actions

In response, the Directors have identified £2.4bn of mitigations (£1.6bn available within the first two years up to January 2023, and a further £0.8bn available in the third year 2023/24), all within management's control, to reduce costs and optimise the

JOHN LEWIS PLC

Strategic report for the year ended 30 January 2021 (continued)

Group's cash flow, liquidity and covenant headroom, the majority of which would only be triggered in the event of the downside scenario materialising. These actions were identified as part of the Group's contingency planning which considered both feasibility and time frames to execute. Mitigating actions include, but are not limited to, reducing capital and investment expenditure through postponing or pausing projects and change activity; deferring or cancelling discretionary spend (including discretionary Partner benefits); and reducing marketing spend. These mitigations are all within the control of the Group and exclude those mitigations which place some reliance on the external market (asset sales). The Group's projected cash position included in the budget assumes utilisation of Government support in relation to the business rates holiday to the end of the fiscal year (March 2021) but does not include any allowance for the job retention scheme or assume any further reliance on Government support beyond this date.

Internal mitigations alone would be sufficient to absorb the effects of the downside scenario. Additional liquidity could be sourced from the external market assuming sufficient appetite existed, e.g. asset disposal or sale and leaseback of property. Continuous monitoring of the Group's liquidity position enables management to proactively apply these mitigations as required.

Having applied the downside scenario and liquidity mitigations above, we have also performed reverse stress testing to identify what it would take to 'break' the Group's financial model; being a situation in which the Group was no longer liquid or could not meet the requirements of our financial covenants, without further action. The conclusion of our stress test is that the Group could sustain a further loss of more than 10% of annual sales over and above the downside scenario already modelled or a further one-off cost of £400m, without breaching our bond covenants. Our committed credit facilities remain undrawn in our stress test. The Group would prefer to retain the option to utilise its facilities, therefore, covenant compliance will continue to be monitored closely, and if deemed necessary, the Group will seek a covenant relaxation from its bank group, or take other actions to replace the level of liquidity support provided by these facilities.

Viability assessment

We have made our assessment based on our best view of the severe but plausible downside scenario that we might face. If outcomes are unexpectedly significantly worse, the Directors would need to consider what additional mitigating actions were needed, for example accessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside modelled) which may cast significant doubt about the Group's ability to continue to be viable over the three-year assessment period, is not currently reasonable.

Having reviewed current performance, forecasts and risks, the Directors have a reasonable expectation that the Group:

- Has adequate resources to continue in operation;
- Can meet its liabilities as they fall due;
- Can retain sufficient available cash across all three years of the assessment period; and
- Will not breach any financial covenants attached to its financial debt (bonds, term loans and bank facilities).

The Directors therefore have a reasonable expectation that the Group will remain commercially viable over the three-year period of assessment. An overview of the process undertaken to reach this conclusion was provided to, and reviewed by, the Audit and Risk Committee (see pages 80 to 81 of the Partnership's Annual Report and Accounts).

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Strategic report for the year ended 30 January 2021 (continued)

Variable	Downside scenario			Principal risks										Covid-19 risks	
	21/22 Yr 1	22/23 Yr 2	23/24 Yr 3	1	2	3	4	5	6	7	8	9	10		
Sales underperformance	(4)% vs budget	*(4)% vs Plan	*(4)% vs Plan	x	x	x				x	x		x	x	x
Gross margin rate	(200)bps vs budget	*(240)bps vs Plan	*(230)bps vs Plan	x	x	x				x	x		x	x	x
Foreign exchange	£(23)m	-	-	x											x
Missed project delivery	£(83)m	£(90)m	-		x					x	x			x	x
Target under delivery	£(71)m	-	-		x					x	x		x	x	
One-off IT data breach	£(50)m	-	-					x							x
One-off regulatory non-compliance risk	-	£(25)m	-										x	x	x
Pension deficit increase	£(580)m	-	-						x						x
Additional impairment	£(100)m	-	-												x

*cumulative based on Partnership Plan

JOHN LEWIS PLC

Strategic report for the year ended 30 January 2021 (continued)

Looking ahead

We now have a five-year Partnership Plan. The first priority is to reduce our costs and reinvest the proceeds in improved customer service to ensure that John Lewis and Waitrose remain the go-to brands for quality, value and sustainability, with greater ease and convenience. With retail margins declining and the Group wishing to return more benefit to Partners, customers and communities, we are aiming that, by 2030, 40% of our profits will come from areas outside retail, namely financial services, housing and outdoor living.

Growth plans

We plan to invest £800m in 2021/22 to support our turnaround, approximately 40% higher than recent years. Given this raised level of investment, we expect our financial results - including liquidity, debt ratio and profit before exceptionals - to worsen in 2021/22 and then improve in later years. Investments include:

- digital investment across both brands, at a significantly higher level than recent years
- improvements in our store estate
- updating major category propositions such as Home, and refreshing financial services products
- new capacity at our John Lewis Magna Park distribution site to handle higher volume of sales
- restructuring to reduce costs

We will provide an update later in the year as to how we are ensuring best value for John Lewis customers as we finalise our review of Never Knowingly Undersold, informed by intensive customer research.

Future of John Lewis stores

As spending shifts online we want to ensure our stores reflect how customers want to shop - 'right space, right place'. Our shops will always be important and we are proud of our presence on the high street across the country. They provide a sensory experience that online cannot, supported by the expert advice of Partners. Both brands will remain a blend of stores and online.

All our John Lewis stores need to be exciting places to shop, more reflective of the tastes and interests of local customers. This will require investment and we are working closely with landlords and local authorities. We are keen to play our part in the revitalisation of the high street.

Hard as it is, there is no getting away from the fact that some areas can no longer profitably sustain a John Lewis store and last month we announced the proposed closure of eight shops. This includes four 'At Home' shops in Ashford, Basingstoke, Chester and Tunbridge Wells and four department stores in Aberdeen, Peterborough, Sheffield and York. We will now enter into consultation with affected Partners and should we proceed, we will make every effort to find alternative roles in the Group for as many Partners as possible.

Closing a store is one of the hardest decisions we can make as a business. We are acutely sensitive to the impact on our Partners, customers, and communities, particularly at a time when retail and our high streets are undergoing major structural change. We will do everything we can to lessen the impact and will continue to provide community funds to support local areas.

Last month we also confirmed that we have reached an agreement with XPO Logistics to operate our Waitrose distribution centre in Leyland, Lancashire, on our behalf. Leyland remains key to our operations; however, the site remains significantly underused and we have been discussing potential solutions with Partners since last summer. The decision safeguards Leyland's

JOHN LEWIS PLC

Strategic report for the year ended 30 January 2021 (continued)

future and secures employment for 436 Waitrose Partners who will transfer to XPO under the Transfer of Undertakings Protection of Employment (TUPE) regulations.

Equal opportunities, diversity and inclusion

The Group is committed to promoting equal opportunities in employment for existing Partners and for prospective Partners throughout the recruitment process. All Partners and job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation. These are known as 'Protected Characteristics'.

The Group has a Diversity and Inclusion Policy, and an Equal Opportunities Policy. These policies are underpinned by the following Rules contained in the Constitution:

- **Rule 54** - The Partnership takes no account of age, sex, marital status, sexual orientation, ethnic origin, social position or religious or political views.
- **Rule 55** - The Partnership employs disabled people in suitable vacancies and offers them appropriate training and careers.

The Group recruits people with disabilities to suitable vacancies on merit. We offer tailored support through the recruitment process for applicants who declare their disability. In particular, we know adjustments are of utmost importance for our Partners with disabilities, be they physical or cognitive, and arrange reasonable adjustments required at an individual level to ensure our disabled applicants and Partners are supported.

We are developing a new Group diversity and inclusion plan which has to be agile and start with our purpose. It needs to link to our commitment to be among the UK's most inclusive businesses – for our Partners and customers – reflecting and connecting with the diverse communities that we serve. Our plan is informed by data and customer and Partner opinion and led by Executive Director, People, Nikki Humphrey. It is receiving input from our seven internal diversity networks - Gender Equality, Unity, LinkAges, Pride in the Partnership, Ability, Faith and Belief and Working Parents - as well as the diversity and inclusion Focus Group of Partnership Council and a third party specialist. We expect to publish our plan this spring but key areas of focus include:

- **Part-time working.** We launched a Part-Time Advisory Group in 2020 to support part-time Partners and help them progress in our business. We have updated our flexible working policy and plan to create a job share bank, continue to review our recruitment processes and improve access and prioritisation of communication so part-time Partners can keep up to date more easily.
- **Supporting ethnic minorities.** Formed last year, the Black Partner Advisory Group has made significant progress in the way we support ethnic minority Partners. Examples include creating a reverse mentoring scheme, updating our existing challenging bias mandatory e-learning module for all Partners to complete and creating a 'It's not ok' film.
- **Care experienced people.** Within the Partnership Plan we have called out our commitment to improving social mobility, with a focus on care experienced people. We will help people to build their employability skills and support them to become job ready for a career in the Group or another employer that aligns with their aspirations.
- **Voluntary Real Living Wage.** We will pay all Partners aged 18 and older the voluntary Real Living Wage when we reach over £200m profit. This is different to the legally stipulated National Living Wage, which we already pay.

JOHN LEWIS PLC

Strategic report for the year ended 30 January 2021 (continued)

At the end of the financial year, gender and ethnicity (based on 95.2% of Partners who self-declared), by job level:

LEVEL	FEMALE %	MALE %	ETHNIC MINORITIES %**	WHITE %
1-4*	45.0%	55.0%	4.5%	92.5%
5	49.0%	51.0%	5.1%	93.5%
6	53.9%	46.1%	8.1%	91.0%
7	54.7%	45.3%	9.7%	88.6%
8	51.5%	48.5%	10.6%	88.5%
9	46.1%	53.9%	12.7%	85.3%
10	57.9%	42.1%	15.7%	78.7%
TOTAL	56.3%	43.7%	14.7%	80.5%

*At the end of the financial year, our Executive Team consisted of five females (71.4%) and two males (28.6%) and our Board consisted of two females (100%).

**At the end of the financial year, our Executive Team consisted of four white members (57.1%) and three (42.9%) from an ethnic minority background and our Board consisted of two members from an ethnic minority background (100%).

Job levelling enables different jobs to be measured based on their relative scale, impact and size and allows us to compare job levels in all different industry sectors in our business.

LEVEL	JOB ROLE
1	Chairman and Executive Team member
2 and 3	Director
4	Head of department or head of branch
5 and 6	Senior leader or senior specialist
7, 8 and 9	Specialist or junior management
10	Partner entry roles

Approved by the Directors and signed on behalf of the Board.



Sharon White

Director, John Lewis plc

21 April 2021

JOHN LEWIS PLC

Directors' report for the year ended 30 January 2021

The Directors present their report and the audited consolidated financial statements for the year ended 30 January 2021.

The Company has chosen, as permitted under section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic report that would otherwise be required to be disclosed in the Directors' report as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments on pages 24 to 25
- Risk management on pages 14 to 20
- Equal opportunities, diversity and inclusion, including adjustments for disabled persons, on pages 25 to 26
- Research and development on pages 5 to 13

Section 172(1)

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Company's statements on engagement with, and having due regard to, the interests of employees and key stakeholders are contained within the Section 172(1) report in the Strategic Report (pages 11 to 13).

Principal activities

John Lewis plc is incorporated and registered in England and Wales. The principal activity of John Lewis plc is retailing, with the main trading operations being the Waitrose and John Lewis brands: John Lewis operates in a number of different formats including John Lewis stores, online (Johnlewis.com), financial services, in-home services, and sourcing offices in Gurgaon, India and Kwun Tong, Hong Kong; Waitrose operates supermarkets and convenience shops, including shops which operate under licence in the Middle East, online (Waitrose.com and specialist sites for wine, plants and flowers) and the Leckford Estate (the Waitrose Farm). There are also business to business contracts in the UK and abroad and ancillary manufacturing activities. The Company's subsidiaries and related undertakings are listed in note 34.

Directors and Company Secretary

The Directors and Company Secretary of the Company, who held office during the year, and up to the date of signing the financial statements unless otherwise stated, were as follows:

Sharon White (Chairman, appointed 4 February 2020)

Sir Charlie Mayfield (Chairman, resigned 4 February 2020)

Tracey Killen (resigned 10 July 2020)

Patrick Lewis (resigned 31 December 2020)

Bérangère Michel

Peter Simpson (Company Secretary)

JOHN LEWIS PLC

Directors' report for the year ended 30 January 2021 (continued)

Corporate governance statement

John Lewis plc, as the principal trading subsidiary of John Lewis Partnership plc, falls within the governance auspices of the Partnership. The Directors of John Lewis plc are members of the Partnership's Executive Team and are the Executive Directors on the Partnership Board. The Company Secretary of John Lewis Partnership plc is the Company Secretary of John Lewis plc.

To comply with the Disclosure and Transparency Rules applicable to John Lewis plc, its corporate governance arrangements are provided by the Partnership Board and its Committees. These arrangements are explained in the Governance section on pages 61 to 118 of the Partnership's Annual Report and Accounts. As stated in the Partnership's Annual Report and Accounts, the Group does not report against any formal corporate governance code, because it is governed by its own Constitution. The Constitution, which is broadly consistent with the Wates Principles, sets out in its Principles the Partnership's purpose and values; pages 15 and 63 and the Governance section of the Partnership's Annual Report and Accounts set out how the Group's governing authorities monitor alignment of policy and behaviour with the Company's purpose.

Further information on the application of the Company's Diversity and Inclusion Policy is in the Strategic Report. Pages 17 to 18 of the Partnership's Annual Report and Accounts explains the Company's approach to investing in and rewarding its workforce. The management functions are responsible for preparing the consolidated financial statements for John Lewis plc and its Internal Audit and Risk management functions are provided by the Partnership. The John Lewis Partnership plc Audit and Risk Committee, (the Committee), which has at least one independent member and at least one competent in accounting, (i) oversees the Group's external financial reporting, including the integrity of the Partnership's Annual Report and Accounts, and other formal announcements relating to the Partnership's financial performance; (ii) oversees the Group's relationship with its external auditors; (iii) oversees the work and findings of the Group's Internal Audit function; (iv) oversees the Group's systems of risk management and internal control, including an annual review of the effectiveness of those processes; and (v) oversees the effectiveness of the Group's whistleblowing procedures. The Committee's activities in these areas are detailed in the Partnership's Audit and Risk Committee report on pages 75 to 87 of the Partnership's Annual Report and Accounts.

KPMG LLP was the Group's external auditor for 2020/21. They provided the Committee with relevant reports, reviews, information and advice throughout the year, as set out in their engagement letter. The Committee is responsible for making a recommendation to the Partnership Board relating to the appointment, re-appointment or removal of the external auditor.

The Group has a risk management framework, including a process for how we identify, evaluate, manage and monitor the principal risks faced by the Group, supported by tools, dedicated Partners and a risk governance structure with defined accountability. The principal risks and uncertainties and mitigations for those risks for John Lewis plc are explained on pages 14 to 20 of the Strategic Report. These risks are reviewed and monitored by the Partnership's Audit and Risk Committee. The work undertaken by the Partnership's Audit and Risk Committee during the year to review these risks is detailed in the Committee's Report on pages 75 to 87 of the Partnership's Annual Report and Accounts.

The Partnership Board receives updates through the Chair of the Committee and copies of its minutes on the operation of the systems of internal control for risk management. Reporting during the year was through presentations from senior management and financial control as well as the work of Internal Audit, which provides objective assurance on the effectiveness of controls through the delivery of a risk-based work plan. The Director of Internal Audit and Risk reports functionally to the Chair of the Committee and operationally to the Executive Director, Finance.

Employees

The Constitution of the Partnership provides for the democratic involvement of our Partners as co-owners of the business. Partners are provided with extensive information on all aspects of business operations and are encouraged to take an active interest in promoting its commercial success.

JOHN LEWIS PLC

Directors' report for the year ended 30 January 2021 (continued)

The aim is to ensure that the co-owners are given the information they need to be able to decide whether the Chairman, the Partnership Board and management are being effective. The Group's democratically elected bodies, including the Partnership Council, provide regular opportunities at all levels of the business for management to report to Partners and for Partners to question management. Additionally, there is an open system of journalism, including the weekly *Gazette*, which provides a means of sharing information extensively with all Partners and contributes to effective accountability.

Partners may receive an annual Partnership Bonus from the profits of the business if approved by the Partnership Board in any given year. This is a shared bonus for shared effort.

The Group seeks to embrace diversity and this is reflected in all we do. For further information, see the John Lewis Partnership plc Annual Report at pages 19 to 20.

Conflicts of interest

The John Lewis plc Board maintains procedures that allow for the review of potential conflicts of interest. All Directors are required to declare pertinent interests and absent themselves from any discussion that might give rise to a conflict of interest. A register of interests is maintained by the Company Secretary.

At no time during the year did any Director hold a material interest in any contract of significance with the Group or any of its subsidiary undertakings, other than a third party indemnity between each Director and the Company, as granted by the Company's Articles of Association and service contracts between each Executive Director and the Company.

Directors' and Officers' liability insurance

The Directors and key managers (Officers) of the Company are beneficiaries of Directors' and Officers' liability insurance providing cover for claims made, subject to certain limitations and exclusions, which is purchased and maintained throughout the year by the Group. The Group also provides an indemnity for the benefit of each Trustee of the Partnership's Pension Fund, in respect of liabilities that may attach to them in their capacity as a Trustee. As a former Trustee of the Partnership's Pension Fund, Patrick Lewis, who was a Director of the Company during the year under review until his resignation on 31 December 2020, has the benefit of this indemnity in relation to his term as Trustee from August 2009 to September 2015.

Directors' responsibilities

The statement of Directors' responsibilities in relation to the Strategic report, Directors' report and financial statements is set out on page 131.

Directors' interests

Under the Constitution of the Partnership all the Directors, as employees of John Lewis plc, are necessarily interested in the 612,000 deferred ordinary shares in John Lewis Partnership plc, which are held in Trust for the benefit of employees of John Lewis plc and of certain other Group companies. No Director has or had a material interest in any contract or arrangement to which the Company is or was a party.

JOHN LEWIS PLC

Directors' report for the year ended 30 January 2021 (continued)

Capital structure

At 30 January 2021, the Company has in issue 6.7m ordinary shares of £1 each. Each ordinary share carries the right to one vote at a general meeting of the Company. The ordinary shares are wholly owned by John Lewis Partnership plc.

Listing on the London Stock Exchange (LSE)

John Lewis plc is a Standard Listed company in respect of two corporate bonds listed on the LSE. The Company has no securities carrying voting rights admitted to trading on a regulated market.

Dividends

The Directors do not recommend the payment of a dividend on the ordinary shares (2020: £nil).

Use of financial instruments

The notes to the financial statements, including note 7 from pages 93 to 99, include further information on our use of financial instruments.

Going concern

The Directors, after reviewing the Group's operating budgets, investment plans and financing arrangements, consider that the Company and Group have sufficient financing available at the date of approval of this report. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts. Refer to pages 39 to 40 for further detail, in particular the assessment by the Directors of the impact on the Group of the Covid-19 pandemic.

A full description of the Group's business activities, financial position, cash flows, liquidity position, committed facilities and borrowing position, together with the factors likely to affect its future development and performance, are set out in the Strategic Report on pages 4 to 26.

JOHN LEWIS PLC

Directors' report for the year ended 30 January 2021 (continued)

Political donations

It is not the Group's policy to make donations to political groups. No political donations were made in respect of the year under review (2020: £nil).

Ethics and sustainability

More information on the progress we are making on our ethics and sustainability aims is available in the John Lewis Partnership 2020/21 Ethics and Sustainability Progress Report. To read this and to read our latest Modern Slavery Statement, please visit www.johnlewispartnership.co.uk/csr.

Annual General Meeting

The Annual General Meeting will be held and conducted in accordance with the Companies Act and the Company's Articles of Association.

Events after the balance sheet date

Since 30 January 2021, there have been two events which require disclosure in the financial statements. See note 8.3.

Appointment of auditor

KPMG LLP have indicated their willingness to continue in office, and a resolution that they will be re-appointed will be proposed to the Annual General Meeting, together with a resolution to authorise the Directors to determine the auditor's remuneration.

Disclosure of information to auditor

Each of the persons who are Directors at the date of approval of this report confirms that:

1. The Director has taken all reasonable steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish the Group's auditor is aware of that information.
2. So far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware.

Approved by the Directors and signed on behalf of the Board.



Peter Simpson

Company Secretary

21 April 2021

JOHN LEWIS PLC

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 30 January 2021

Notes	2021 ¹ £m	2020 £m	
2.1, 2.2	Revenue	10,771.8	10,151.3
	Cost of sales	(7,408.6)	(6,789.2)
	Gross profit	3,363.2	3,362.1
2.3	Other operating income	102.4	125.1
2.4	Operating expenses before exceptional items and Partnership Bonus	(3,179.6)	(3,256.9)
3.3	Share of profit/(loss) of joint venture (net of tax)	0.9	(0.2)
2.1	Operating profit before exceptional items and Partnership Bonus	286.9	230.1
2.5	Exceptional items	(648.0)	107.4
2.1	Operating (loss)/profit before Partnership Bonus	(361.1)	337.5
5.1	Finance costs	(168.6)	(175.0)
5.1	Finance income	11.3	13.7
	(Loss)/profit before Partnership Bonus and tax	(518.4)	176.2
	Partnership Bonus	-	(30.9)
2.6	(Loss)/profit before tax	(518.4)	145.3
2.9	Taxation	65.4	(37.7)
	(Loss)/profit for the year	(453.0)	107.6
2.1	Profit before Partnership Bonus, tax and exceptional items	129.6	68.8

¹ 53-week year

The accompanying notes are an integral part of the financial statements.

JOHN LEWIS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 January 2021

Notes	2021 ¹ £m	2020 £m
	(453.0)	107.6
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme (237.4)	(193.6)
2.9	Movement in deferred tax on pension scheme 53.6	30.4
2.9	Movement in current tax on pension scheme 1.6	2.5
Items that may be reclassified subsequently to profit or loss:		
	Fair value loss on cash flow hedges (5.6)	(8.7)
2.9	Movement in deferred tax on cash flow hedges 0.3	3.2
	Gain on foreign currency translations –	0.3
	Other comprehensive expense for the year (187.5)	(165.9)
	Total comprehensive expense for the year (640.5)	(58.3)

¹ 53-week year

The accompanying notes are an integral part of the financial statements.

JOHN LEWIS PLC

CONSOLIDATED BALANCE SHEET

as at 30 January 2021

Notes		2021 £m	2020 £m
Non-current assets			
3.1	Intangible assets	467.9	495.5
3.2	Property, plant and equipment	2,983.5	3,535.4
3.2	Right-of-use assets	1,540.2	1,854.9
4.2	Trade and other receivables	18.0	16.5
7.2	Derivative financial instruments	0.1	0.1
3.3	Investment in and loans to joint venture	3.4	2.5
2.9	Deferred tax asset	103.4	0.2
		5,116.5	5,905.1
Current assets			
4.1	Inventories	643.9	612.9
4.2	Trade and other receivables	250.8	321.0
	Current tax receivable	9.0	–
7.2	Derivative financial instruments	7.2	4.8
3.4	Assets held for sale	10.6	1.5
5.3	Short-term investments	0.3	317.2
5.4	Cash and cash equivalents	1,518.2	598.3
		2,440.0	1,855.7
	Total assets	7,556.5	7,760.8
Current liabilities			
5.5	Borrowings and overdrafts	(75.0)	–
4.3	Trade and other payables	(1,654.7)	(1,625.2)
	Current tax payable	–	(9.0)
5.2, 5.6	Lease liabilities	(127.3)	(95.4)
4.4	Provisions	(193.6)	(108.6)
7.2	Derivative financial instruments	(20.9)	(18.7)
		(2,071.5)	(1,856.9)

JOHN LEWIS PLC

CONSOLIDATED BALANCE SHEET (CONTINUED)

as at 30 January 2021

Notes		2021 £m	2020 £m
Non-current liabilities			
5.5	Borrowings	(795.4)	(718.5)
4.3	Trade and other payables	(45.0)	(46.8)
5.2, 5.6	Lease liabilities	(1,910.0)	(1,999.5)
4.4	Provisions	(162.4)	(144.9)
7.2	Derivative financial instruments	(2.7)	(3.9)
6.1	Retirement benefit obligations	(646.9)	(417.4)
2.9	Deferred tax liability	(5.2)	(20.4)
		(3,567.6)	(3,351.4)
	Total liabilities	(5,639.1)	(5,208.3)
	Net assets	1,917.4	2,552.5
Equity			
8.1	Share capital	6.7	6.7
	Share premium	0.3	0.3
	Other reserves	(12.7)	(12.8)
	Retained earnings	1,923.1	2,558.3
	Total equity	1,917.4	2,552.5

The financial statements on pages 32 to 101 were approved by the Board of Directors on 21 April 2021 and signed on its behalf by Sharon White and Bérangère Michel, Directors, John Lewis plc.




Registered number 00233462

Sharon White and Bérangère Michel

Directors, John Lewis plc

The accompanying notes are an integral part of the financial statements.

JOHN LEWIS PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 January 2021

Notes	Share capital £m	Share premium £m	Capital reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
Balance at 26 January 2019	6.7	0.3	1.4	(0.6)	0.1	2,606.6	2,614.5
Adjustment on initial application of IFRS 16 ¹	–	–	–	–	–	4.8	4.8
Balance at 27 January 2019	6.7	0.3	1.4	(0.6)	0.1	2,611.4	2,619.3
Profit for the year	–	–	–	–	–	107.6	107.6
6.1 Remeasurement of defined benefit pension scheme	–	–	–	–	–	(193.6)	(193.6)
Fair value loss on cash flow hedges	–	–	–	(8.7)	–	–	(8.7)
2.9 Tax on above items recognised in equity	–	–	–	3.2	–	32.9	36.1
Gain on foreign currency translations	–	–	–	–	0.3	–	0.3
Total comprehensive (expense)/income for the year	–	–	–	(5.5)	0.3	(53.1)	(58.3)
Hedging gains transferred to cost of inventory	–	–	–	(8.5)	–	–	(8.5)
Balance at 25 January 2020	6.7	0.3	1.4	(14.6)	0.4	2,558.3	2,552.5
Loss for the year	–	–	–	–	–	(453.0)	(453.0)
6.1 Remeasurement of defined benefit pension scheme	–	–	–	–	–	(237.4)	(237.4)
Fair value loss on cash flow hedges	–	–	–	(5.6)	–	–	(5.6)
2.9 Tax on above items recognised in equity	–	–	–	0.3	–	55.2	55.5
Gain on foreign currency translations	–	–	–	–	–	–	–
Total comprehensive expense for the year	–	–	–	(5.3)	–	(635.2)	(640.5)
Hedging losses transferred to cost of inventory	–	–	–	5.4	–	–	5.4
Balance at 30 January 2021	6.7	0.3	1.4	(14.5)	0.4	1,923.1	1,917.4

¹ The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

The accompanying notes are an integral part of the financial statements.

JOHN LEWIS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 January 2021

Notes	2021 ¹ £m	2020 £m	
2.7	Cash generated from operations before Partnership Bonus	820.0	698.7
	Net taxation paid	(16.0)	(17.2)
	Pension deficit reduction payments	(7.5)	(12.8)
	Finance costs paid	(114.7)	(109.0)
	Net cash generated from operating activities before Partnership Bonus	681.8	559.7
	Partnership Bonus paid	(31.4)	(45.8)
	Net cash generated from operating activities after Partnership Bonus	650.4	513.9
	Cash flows from investing activities		
	Purchase of property, plant and equipment	(122.5)	(191.5)
	Purchase of intangible assets	(99.1)	(146.7)
	Proceeds from sale of property, plant and equipment and intangible assets	142.2	174.9
	Finance income received	4.0	4.9
5.2	Cash inflow/(outflow) from short-term investments	316.1	(51.4)
	Net cash generated from/(used in) investing activities	240.7	(209.8)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	(31.1)	(54.2)
	Finance costs paid in respect of financial instruments	–	(0.7)
	Payment of capital element of leases	(90.1)	(92.7)
	Cash inflow/(outflow) from borrowings	150.0	(275.0)
	Net cash generated from/(used in) financing activities	28.8	(422.6)
	Increase/(decrease) in net cash and cash equivalents	919.9	(118.5)
5.2	Net cash and cash equivalents at beginning of the year	598.3	716.8
	Net cash and cash equivalents at end of the year	1,518.2	598.3
5.4	Net cash and cash equivalents comprise:		
	Cash at bank and in hand	178.2	151.2
	Short-term deposits	1,340.0	447.1
		1,518.2	598.3

¹ 53 week year

The accompanying notes are an integral part of the financial statements.

Notes to the consolidated financial statements

I ACCOUNTING INFORMATION

IN THIS SECTION

In this section, we explain the basis of preparation of the Group's consolidated financial statements and accounting policies which relate to the financial statements as a whole. Where an accounting policy or critical accounting estimate and judgement is specific to a particular note, it is described within that note.

This section also details new or amended accounting standards and when they are effective. We also give an explanation of the impact these accounting standards have had, or the current view of the impact they will have, on the Group's consolidated financial statements.

I.1 Accounting Principles and Policies

We prepare our financial statements under international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). We have set out our significant accounting policies in these notes. These have been applied in the current reporting period and apply to the financial statements as a whole. All of the Group's accounting policies are set in line with the requirements of IFRS.

Changes to significant accounting policies are described in note 1.1.4.

I.1.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention, with the exception of certain land and buildings which are included at their deemed cost amounts, and financial assets and financial liabilities (including derivative financial instruments) which are valued at fair value through profit or loss. These consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU).

The preparation of consolidated financial statements in conformity with IFRS requires the use of judgements and estimates that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting estimates and key judgements made by management are disclosed in section 1.1.6.

The financial year is the 53 weeks ended 30 January 2021 (prior year: 52 weeks ended 25 January 2020).

Impact of Covid-19

The Covid-19 pandemic has had a significant impact on the Group's financial performance and position for the year ended 30 January 2021. Additional consideration has been given to the key areas of estimation uncertainty and judgement noted below:

- The basis for the expected liability for customer returns of goods sold has been revised and the returns provision increased following shop closures during lockdown (see note 4.4);
- The net realisable value of inventory has been reassessed and appropriate provision made to reflect the higher levels of stock held at year-end (see note 4.1);
- The value of rebates recognised within trade receivables and accrued income at year-end reflects the realistic expectation of supplier income to be received in respect of the 2020/21 financial year (see note 4.2); and
- The impact of Covid-19 has been factored into our impairment assessment for tangible assets, most notably our re-evaluation of online allocation and near-term trading forecast but also the longer term impact has been considered through applying a risk factor to the discount rate used within the modelling (see note 3.2).

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.1 BASIS OF PREPARATION (CONTINUED)

Consideration has also been given as to whether costs and income relating to Covid-19 meet the definition of exceptional items and whether, individually or collectively, they are significant by virtue of their size and nature. Whilst these criteria are met in a number of cases (for example, furlough income and costs of personal protective equipment), given the diverse actions arising in response to the Covid-19 pandemic, isolating and quantifying all individual items of cost and income in an even handed way is difficult to achieve and could be misleading. On this basis, it has been deemed not appropriate to classify costs or income associated with Covid-19 as exceptional.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 30 January 2021, the Directors are required to consider whether the Group can continue in operational existence for a period of at least 12 months from the approval of the Annual Report and Accounts. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts with specific consideration to the trading position of the Group in the context of the current Covid-19 pandemic in the UK, for the reasons set out below.

As at 30 January 2021, the Group had total assets less current liabilities of £5.5bn and net assets of £1.9bn. Liquidity as at that date was £2.0bn, made up of cash and cash equivalents, short-term investments and undrawn committed credit facilities of £500m. This increase compared to the £1.4bn liquidity position reported at the 25 January 2020 year-end has been achieved through the active measures undertaken to strengthen the Group's liquidity position in response to the risks posed by the Covid-19 pandemic during 2020/21. In addition to a number of operational cash preservation actions taken, the following has also been completed:

- Securing £300m from the Government's Covid Corporate Financing Facility (CCFF), repaid on 21 January 2021 ahead of maturity in March 2021;
- Obtaining two new medium term loans of £75m each maturing in November 2022 and December 2022;
- Generating £136m proceeds (exc VAT) on the sale and leaseback of 11 Waitrose stores;
- Renegotiating the revolving credit facilities covenants for the year-end 2020/21 and 2021/22 tests;
- Extending £386m of the £450m revolving credit facility, which was due to expire in November 2021, to November 2022 (£64m will remain as expiring in November 2021); and
- Extending a £50m bilateral credit facility from March 2021 to September 2022.

Despite the events of the past year, 2020/21 year-end results are encouraging, demonstrating resilience in a volatile market. Both Waitrose stores and its online activities continued to operate during the lockdown periods given that they were designated by the UK Government as part of an 'essential industry' and customer demand increased due to the closure of hospitality services. For John Lewis, online performance has been strong and this is anticipated to continue into 2021/22, particularly with the continued temporary closure of stores during the early part of the financial year. On 24 March 2021, it was announced that a further eight John Lewis stores have been proposed for closure, subject to consultation, and have not reopened since the lockdown was lifted. The full impact of the Covid-19 pandemic is unknown at this time and is unpredictable, and our key priority continues to be the health and wellbeing of our Partners and customers, while we maintain our high standards of service.

Accordingly, the Directors have reviewed the continually evolving situation relating to Covid-19 and considered its longer term impacts, for example on consumer demand, by modelling a downside scenario to cover the going concern assessment period, being for the 12 month period ending April 2022. In addition, as part of the assessment of viability, the Directors have modelled a further period to 28 January 2023 in order to cover the maturity of the revolving credit facility and term loan repayments which fall due ahead of this date.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.1 BASIS OF PREPARATION (CONTINUED)

For the purposes of the going concern assessment, it is assumed that all borrowings are repaid at their maturity date and that no further refinancing or funding is undertaken. The downside case represents an increasingly severe but plausible scenario. It assumes lockdown conditions continue into Q2 2021/22 and that John Lewis stores are closed during this period, with online sales remaining operational but with reduced demand. Waitrose remains operational both in store and online, albeit with sales and margin pulled back from current trading levels which are significantly ahead of pre-Covid-19 levels in 2019/20. This is followed by a further, deeper recession throughout the assessment period resulting in a further reduction in sales, as well as a reduction in margin across both brands and a number of one-off events, e.g. a regulatory and data security breach, higher impairment charge, increasing pension deficit and project under-delivery. The impact of the downside adjustments has been reviewed against the Group's projected cash position and financial covenants. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable.

The downside modelled has a significant adverse impact on sales, margin and cash flow. In response, the Directors have identified available mitigations in the going concern assessment period, all within management's control, to reduce costs and optimise the Group's cash flow, liquidity and covenant headroom. The majority of these mitigations would only be triggered in the event of the downside scenario materialising. Mitigating actions include, but are not limited to, reducing capital and investment expenditure through postponing or pausing projects and change activity; deferring or cancelling discretionary spend (including discretionary Partner benefits); and reducing marketing spend.

The Group has no other debt or facilities that mature prior to November 2021 when the £75m term loan and £64m (of a total £450m) syndicated facility both mature (see note 7.1.2). The Group's committed facilities contain one financial performance covenant, which is a profit based covenant ('Fixed Charge Cover'). The downside scenario modelled indicates that without mitigating actions a number of the Group's covenants relating to the bonds, term loans and undrawn committed credit facilities would breach at the next balance sheet date due to the reduction in profits and net assets modelled. However, whilst the scenario indicates breaches, the same scenario indicates that post mitigating actions, the cash low point under such a scenario would be £640m, under which our covenants would not breach, the bonds would not be required to be repaid early and the committed credit facilities would remain undrawn. The Group would prefer to retain the option to utilise its facilities, therefore, covenant compliance will continue to be monitored closely, and if deemed necessary, the Group will seek a covenant relaxation from its bank group, or take other actions to replace the level of liquidity support provided by these facilities.

The downside detailed above is deemed by the Directors to provide a severe but plausible stress test on our ability to adopt the going concern basis. This includes a significant reduction in 2021/22 performance as a result of Covid-19 and reduced trading performance across both brands, resulting in a pre-mitigation cash reduction to forecast. Uncertainty exists in respect of the potential impact of Covid-19 in 2021/22 and its longer term economic impact. We have made our assessment based on our best view of the severe but plausible downside scenario that we might face. If outcomes are unexpectedly significantly worse, the Directors would need to consider what additional mitigating actions were needed, for example, accessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside modelled) that may create circumstances that represent a material uncertainty and which may cast significant doubt about the Group's ability to continue as a going concern, is not currently reasonable.

Consequently, the Directors have concluded that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the Annual Report and Accounts and therefore have prepared the financial statements on a going concern basis.

I.1.2 BASIS OF CONSOLIDATION

The Group's consolidated financial statements incorporate the results for the Company and all entities controlled by the Company including its subsidiaries and the Group's share of its interest in joint ventures made up to the year-end date.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS

Subsidiary undertakings are all entities over which the Group has control. Control exists when the Group has the power to direct the relevant activities of an entity so as to affect the return on investment. Joint ventures are investments for which the Group shares joint control with a third party. All intercompany balances, transactions and unrealised gains are eliminated upon consolidation.

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 30 January 2021. Unless otherwise stated, the undertakings listed below are registered at 171 Victoria Street, London, SW1E 5NN, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Company name	Company number
Herbert Parkinson Limited	00318082
JLP Scotland Limited ¹	SC370158
John Lewis Car Finance Limited	04328890
John Lewis International Limited	07501166
John Lewis Partnership Pensions Trust	00372106
John Lewis PT Holdings Limited	07106855

¹ Registered office is John Lewis Aberdeen, George Street, Aberdeen, AB25 1BW.

The following UK subsidiaries will take advantage of the exemption from preparing and filing individual accounts as set out within section 394A(1) and 448A of the Companies Act 2006 for the year ended 30 January 2021. Unless otherwise stated, the undertakings listed below are registered at 171 Victoria Street, London, SW1E 5NN, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Company name	Company number
Buy.Com Limited	03709785
Jonelle Jewellery Limited	00223203
Jonelle Limited ¹	00240604
Peter Jones Limited	00285318
The Odney Estate Limited	02828420

¹ Jonelle Limited has three classes of shares, each with a nominal value of £1.

As required, John Lewis plc guarantees all outstanding liabilities to which the subsidiary companies listed in the tables above are subject at the end of the financial year, until they are satisfied in full. This is in accordance with Section 479C of the Companies Act 2006. The guarantee is enforceable against John Lewis plc as the parent undertaking, by any person to whom the subsidiary companies listed above are liable in respect of those liabilities.

I.1.4 AMENDMENTS TO ACCOUNTING STANDARDS

The following standards, amendments and interpretations were applicable for the period beginning 26 January 2020, and were adopted by the Group for the year ended 30 January 2021 and have not had a significant impact on the Group's loss for the year, equity or disclosures:

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8: Definition of Material

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.4 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

- Amendments to IFRS 3: Business Combinations
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- Amendments to IFRS 16: Covid-19 Related Rent Concessions

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Group's accounting periods beginning 31 January 2021 onwards, which the Group has not adopted early:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (applicable for the period beginning 31 January 2021)

The adoption of these standards is not expected to have a significant impact on the Group's consolidated financial statements.

The Group is also currently assessing the impact of the following new and amended standards, which have been issued and are awaiting endorsement by the European Union:

- Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use (applicable for the period beginning 30 January 2022)
- Amendments to IFRS 3: Business Combinations (applicable for the period beginning 30 January 2022)
- Amendments to IFRS 37: Onerous Contracts – Cost of Fulfilling a Contract (applicable for the period beginning 30 January 2022)
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (applicable for the period beginning 29 January 2023)
- IFRS 17 Insurance Contracts (applicable for the period beginning 29 January 2023)
- Amendments to IFRS 17 Insurance Contracts (applicable for the period beginning 29 January 2023)

I.1.5 SIGNIFICANT ACCOUNTING POLICIES

Where significant accounting policies are specific to a particular note, they are described within that note. Other significant accounting policies are included below.

Financial instruments

The Group uses derivative financial instruments to manage its exposure to fluctuations in financial markets, including foreign exchange rates, interest rates and certain commodity prices. Derivative financial instruments used by the Group include forward currency and commodity contracts, interest rate swaps and foreign exchange options.

Derivative financial instruments are initially measured at fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date. Subsequent to initial recognition, unless designated as hedging instruments, derivatives are measured at fair value and any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting has been adopted for derivative financial instruments where possible. At inception of designated hedging relationships, the risk management objective and strategy for undertaking the hedge is documented. Additionally, the Group documents the economic relationship between the item being hedged and the hedging instrument, and a qualitative and forward-looking approach is taken to assessing whether the hedge will be effective on an ongoing basis. At the end of each financial reporting period, for each derivative financial instrument, prospective testing is performed to ensure that the economic relationship remains; the impact of credit risk on changes in values is reviewed; and the hedging ratio is reassessed.

Hedge accounting is discontinued when the hedging instrument matures, is terminated or exercised, the designation is revoked or it no longer qualifies for hedge accounting.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A cash flow hedge is a hedge of the exposure to variability of cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. The effective portion of changes in the intrinsic fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. All other changes in fair value are recognised immediately in the income statement within other gains or losses. When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve is included directly in the initial cost of the non-financial item when it is recognised. For all other hedged forecast transactions, amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. Derivative financial instruments qualifying for cash flow hedge accounting are principally forward currency contracts.

A fair value hedge is a hedge of the exposure to changes in the fair value of a recognised asset or liability. Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps and foreign exchange options.

The table below sets out the Group's accounting classification of each class of its financial assets and liabilities:

	Note	Measurement
Financial assets:		
Trade receivables	4.2	Amortised cost
Other receivables	4.2	Amortised cost
Short-term investments	5.3	Amortised cost
Cash and cash equivalents	5.4	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI ¹
Financial liabilities:		
Borrowings and overdrafts	5.5	Amortised cost
Trade payables	4.3	Amortised cost
Other payables	4.3	Amortised cost
Accruals	4.3	Amortised cost
Partnership Bonus	4.3	Amortised cost
Lease liabilities	5.2, 5.6	Amortised cost
Derivative financial instruments	7.2	Fair value through profit and loss or OCI ¹

¹ Cash flow hedges designated as being in a hedged relationship upon initial recognition are measured at fair value with the effective portion of any changes in the intrinsic value recognised in equity.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

I.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

I.1.5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

Balance sheet netting only occurs to the extent that there is the legal ability and intention to settle net. As such, bank overdrafts are presented in current liabilities to the extent that there is no intention to offset with any cash balances.

Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. On translation of assets and liabilities in foreign currencies, movements go through the foreign currency translation reserve.

Government grants

The Group accounts for government grants on an accruals basis and has elected to present receipts relating to government grants as a deduction in reporting the related expense. During the year ended 30 January 2021, the Group has recognised grant income receipts from the UK Government's Coronavirus Job Retention Scheme of £54.8m.

I.1.6 KEY JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including management's reasonable expectations of future events.

The preparation of the financial statements requires management to make estimates and judgements concerning the future. The resulting accounting estimates will, by definition, be likely to differ from the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Areas of significant risk	Note	Critical accounting estimates and key judgements
Retirement benefits	6.1	Critical accounting estimates
Provisions and liabilities	4.3, 4.4	Critical accounting estimates
Impairment	3.1, 3.2	Critical accounting estimates
Depreciation and amortisation	3.1, 3.2	Critical accounting estimates
Value of intangible work in progress	3.1	Key judgements
Application of residual values	3.2	Key judgements
Exceptional items	2.5	Key judgements
Revenue/deferred income	4.3	Critical accounting estimates
Lease terms	5.6	Key judgements

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

1.2 NON-GAAP MEASURES

1.2.1 TOTAL TRADING SALES

Total trading sales represents the full customer sales value including VAT as reported weekly to the Group's Executive Team, before adjustments for sale or return sales and other accounting adjustments. This measure shows the headline sales trend.

1.2.2 TRADING OPERATING PROFIT

Trading operating profit (TOP) is based on operating profit, but excludes centrally managed costs. These centrally managed costs are outside of the direct influence and control of the brands and are reviewed by the Executive Team at a Group level in aggregate. TOP is used to assess the performance of the John Lewis and Waitrose brands and determine the allocation of resources to those segments.

1.2.3 CENTRALLY MANAGED COSTS

Centrally managed costs include all Group fixed property costs, head office costs, and one-off adjusting items. One-off adjusting items are those that do not meet the Group's definition of "exceptional items", because they are considered to be relevant to the principal activities of the business. However, these are removed from the trading operating profit of each brand, as they are non-recurring in a business-as-usual scenario. This allows management to better assess the underlying performance.

1.2.4 EXCEPTIONAL ITEMS

The separate reporting of exceptional items helps to provide an indication of the Group's underlying business performance. Exceptional items relate to certain costs or incomes that individually or collectively, are significant by virtue of their size and nature. In considering the nature of an item, management's assessment includes, both individually and collectively, each of the following:

- Whether the item is outside of the principal activities of the business;
- The specific circumstances which have led to the item arising;
- The likelihood of recurrence; and
- If the item is likely to recur, whether the item is unusual by virtue of its size.

1.2.5 PROFIT BEFORE PARTNERSHIP BONUS AND TAX

Profit before Partnership Bonus and tax is presented as a separate financial statement caption within the consolidated income statement. This measure provides further information on the Group's underlying profitability, and is a core measure of performance for Partners.

1.2.6 NET DEBT

Net debt incorporates the Group's consolidated borrowings, bank overdrafts, fair value of derivative financial instruments and lease liabilities, less cash and cash equivalents, short-term investments and unamortised bond transaction costs. This measure indicates the Group's debt position, excluding the pension deficit.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2 GROUP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 30 January 2021. Information is provided on segmental performance, revenue, other operating income, operating expenses, exceptional items, Partner-related costs and taxation. This section also includes a reconciliation of our (loss)/profit before tax to the cash generated from operations before Partnership Bonus, which shows how our performance translates into cash.

2.1 SEGMENTAL REPORTING

ACCOUNTING POLICIES

Segmental reporting: *The Group's reporting segments are determined based on business activities for which operating results are reviewed by the chief operating decision-maker (CODM). The Group's CODM is the Executive Team and the reporting segments reflect the management structure of the Group.*

Partnership Bonus: *The Partnership Bonus is announced and paid to Partners each March and is determined in relation to the performance for the previous financial year. No Partnership Bonus is being paid for the year ended 30 January 2021.*

The Partnership Bonus is recorded in the year it relates to rather than the year it was declared because there is a constructive obligation to pay a Partnership Bonus and the amount can be reliably estimated once the results for the year are known.

IFRS 8 Operating Segments requires operating segments to be identified based on the way in which the Group's internal financial reporting is organised and regularly reviewed by the chief operating decision-maker (CODM) to allocate resources and to assess the performance of the different operating segments. The Group's reporting segments are determined based on the business activities of its brands (John Lewis and Waitrose) for which operating results are reviewed by the CODM.

The Group adopted a new organisational structure on 3 February 2020 to improve synergies between brands and allow more costs and resources to be managed centrally. At the same date, the internal decision-making process was reorganised and the CODM changed from the Partnership Board to the Executive Team.

The Executive Team reviews the operating performance for each brand (John Lewis and Waitrose) in the Group, creating new non-GAAP measures known as total trading sales and trading operating profit ("TOP") (see note 1.2).

As the Group's reportable segments have changed, the comparative information for 2020 has been restated to reflect this. In addition, as part of the new Group structure we have taken the opportunity to rationalise sales and margin reporting across the Group. Therefore, the trade of four food halls which had been included in the John Lewis segment is now reported within Waitrose, and the general merchandise sales of the Canary Wharf Waitrose shop are now reported within John Lewis.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.1 SEGMENTAL REPORTING (CONTINUED)

2021	John Lewis £m	Waitrose £m	Total £m
Total trading sales	4,721.9	7,595.2	12,317.1
Value added tax	(766.9)	(438.9)	(1,205.8)
Sale or return and other accounting adjustments	(227.1)	(112.4)	(339.5)
Revenue	3,727.9	7,043.9	10,771.8
Trading operating profit¹	554.4	1,144.6	1,699.0
Centrally managed costs			(902.1)
Depreciation and amortisation			(510.0)
Operating profit before exceptional items and Partnership Bonus²			286.9
Exceptional items			(648.0)
Operating loss before Partnership Bonus			(361.1)
Finance costs			(168.6)
Finance income			11.3
Loss before Partnership Bonus and tax			(518.4)
Partnership Bonus			-
Loss before tax			(518.4)
Taxation			65.4
Loss for the year			(453.0)
Reconciliation of profit before Partnership Bonus, tax, and exceptional items to loss before tax:			
Profit before Partnership Bonus, tax and exceptional items			129.6
Partnership Bonus			-
Exceptional items			(648.0)
Loss before tax			(518.4)

1 Included in trading operating profit is other operating income of which £95.6m (split between operating segments: £50.0m John Lewis and £45.6m Waitrose) represents further income from external customers (see note 2.3). This is reported to the CODM separately as part of other income and expenses.

2 Included within operating profit before exceptional items and Partnership Bonus is a £0.9m share of profit of a joint venture in John Lewis. See note 3.3.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.1 SEGMENTAL REPORTING (CONTINUED)

	John Lewis £m	Waitrose £m	Total £m
2020¹			
Total trading sales	4,829.9	6,917.3	11,747.2
Value added tax	(784.3)	(400.3)	(1,184.6)
Sale or return and other accounting adjustments	(267.6)	(143.7)	(411.3)
Revenue	3,778.0	6,373.3	10,151.3
Trading operating profit²	733.6	1,063.2	1,796.8
Centrally managed costs			(1,027.8)
Depreciation and amortisation			(538.9)
Operating profit before exceptional items and Partnership Bonus³			230.1
Exceptional items			107.4
Operating profit before Partnership Bonus			337.5
Finance costs			(175.0)
Finance income			13.7
Profit before Partnership Bonus and tax			176.2
Partnership Bonus			(30.9)
Profit before tax			145.3
Taxation			(37.7)
Profit for the year			107.6
Reconciliation of profit before Partnership Bonus, tax, and exceptional items to profit before tax:			
Profit before Partnership Bonus, tax and exceptional items			68.8
Partnership Bonus			(30.9)
Exceptional items			107.4
Profit before tax			145.3

¹ The Group adopted a new organisational structure on 3 February 2020 and the CODM changed from the Partnership Board to the Executive Team. The Executive Team reviews the operating performance for each brand (John Lewis and Waitrose), creating new non-GAAP measures known as total trading sales and TOP. The 2020 comparative information has been restated to reflect this.

² Included in trading operating profit is other operating income of which £118.4m (split between operating segments: £58.8m John Lewis and £59.6m Waitrose) represents further income from external customers (see note 2.3). This is reported to the CODM separately as part of other income and expenses.

³ Included within operating profit before exceptional items and Partnership Bonus is a £0.2m share of loss of a joint venture in John Lewis. See note 3.3.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.2 REVENUE

ACCOUNTING POLICIES

Revenue: We evaluate our revenue with customers based on the five-step model under IFRS 15: 'Revenue from Contracts with Customers': (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied. We generate the majority of our revenue from the sale of goods or from providing services to our customers.

Revenue from the sale of goods and services is recognised when the Group has satisfied its performance obligations by transferring a promised good or service to the customer. The good or service is considered to be transferred when the customer obtains control of that good, or the service is complete. Revenue in respect of 'sale or return sales' which represents concession income is stated at the value of the margin that the Group receives on the transaction. Revenue is also net of Partner discounts and VAT, adjustments for the sale of free warranties and adjustments for expected customer returns. Revenue is recognised in respect of sales under bill and hold arrangements when the buyer takes control of the asset, even if it has not physically been transferred to the customer. Revenue under bill and hold arrangements is not recognised when there is simply an intention to acquire.

Sales of gift vouchers and gift cards are treated as liabilities, and revenue is recognised when the gift vouchers or cards are redeemed against a later transaction. Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer based on assumptions regarding redemption rates and time to expiry. Certain entities within the Group sell products with a right of return, and experience is used to estimate and provide for the value of such returns at the time of sale. This is further discussed under inventory note 4.1.

Business is predominantly carried out in the United Kingdom and gross sales and revenue derive almost entirely from that source.

2.2.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

We analyse our revenue between goods and services. Goods are split into four major product lines: Grocery, Home, Fashion and Technology. Services currently comprise free warranties on selected goods. This presentation is consistent with how our Board and Executive Team review performance throughout the year. In line with our five-year Partnership Plan we expect our service offering to increase in the coming year and as such, will keep this reporting under review, including the classification of commission income from other services as other income rather than revenue.

	2021 £m	2020 £m
Major product lines		
Goods		
– Grocery	7,040.4	6,369.7
– Home	995.5	1,052.7
– Fashion	946.6	1,216.5
– Technology	1,695.5	1,350.8
Services		
– Free warranty	25.9	26.8
Other revenue	67.9	134.8
	10,771.8	10,151.3

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.2 REVENUE (CONTINUED)

2.2.2 REVENUE RECOGNITION POLICIES

The following table provides information about the nature of the major product and service lines generating revenue.

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition
Grocery	<p>Grocery products are principally sold by Waitrose and include food, drink, household and other items. Additionally, fuel sales and food halls are shown here.</p> <p>Customers obtain control of grocery products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in Waitrose shops. Where a grocery product is ordered online, it is fulfilled by a Waitrose shop and customers are charged on the day of delivery.</p> <p>For business to business (B2B) customers, invoices are raised and are usually payable within 30 days.</p> <p>Waitrose accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer and control obtained.</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>
Home	<p>Home products are principally sold by John Lewis and include items intended for use in the home environment.</p> <p>Customers obtain control of home products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in John Lewis shops. Where a home product is ordered online, it is generally fulfilled from a centralised location.</p> <p>For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days.</p> <p>John Lewis accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer and control obtained.</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>
Fashion	<p>Fashion products are principally sold by John Lewis and include clothing, jewellery and other items. This also includes 'sale or return' sales.</p> <p>Customers obtain control of fashion products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in John Lewis shops. Where a fashion product is ordered online, it is generally fulfilled from a centralised location.</p> <p>For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days.</p> <p>John Lewis accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer and control obtained.</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.2 REVENUE (CONTINUED)

2.2.2 REVENUE RECOGNITION POLICIES (CONTINUED)

Type of product/ service	Nature and timing of satisfaction of performance obligations	Revenue recognition
Technology	<p>Technology products are principally sold by John Lewis and include televisions, computers, tablets and other electrical items.</p> <p>Customers obtain control of Technology products when the goods are received by the customer.</p> <p>Customers pay at the point of sale in John Lewis shops. Where a Technology product is ordered online, it is generally fulfilled from a centralised location.</p> <p>For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days.</p> <p>John Lewis accepts returns in accordance with a customer's statutory rights under consumer laws in the United Kingdom and has a discretionary goodwill policy. Under the goodwill policy, customers can return products within 35 days after receipt, if not entirely satisfied.</p>	<p>Revenue is recognised when the goods have been received by the customer. When Technology products are sold with a free warranty an element of the sales price is allocated to the performance of that service (see below).</p> <p>Adjustments are recorded for returns where material, based on historic trends and recent sales patterns. The right to return goods is included under inventory, note 4.1.</p>
Free warranties	<p>The free service guarantee is provided with certain Technology products which are sold by John Lewis.</p> <p>Customers receive a free warranty of between two and five years on the purchase of specified Technology products. No separate payment is made for this free service guarantee.</p> <p>An element of the sales price of the Technology product is allocated to the free service guarantee on a cost plus margin basis. This amount is deducted from revenue and deferred on the balance sheet.</p>	<p>Revenue is deferred on the balance sheet and then released to the income statement over the period of the guarantee on a straight-line basis.</p> <p>Deferred income is shown under trade and other payables. See note 4.3.</p>
Other revenue	<p>Other revenue products/services are principally sold by John Lewis and includes catering, customer delivery and workrooms. Other revenue also includes non-redemption revenue relating to gift vouchers and gift cards that are never redeemed or expire unredeemed.</p> <p>Customers obtain control of other revenue products/services when the products/services have been rendered and the performance obligations have been met.</p> <p>Customers pay at the point of sale in John Lewis shops. Where other revenue products/services are ordered online, it is generally fulfilled from a centralised location.</p>	<p>Revenue is recognised when the products/services have been received by the customer and the performance obligations have been met.</p> <p>Non-redemption revenue is recognised in proportion to the pattern of rights exercised by the customer based on assumptions regarding redemption rates and time to expiry.</p>

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.3 OTHER OPERATING INCOME

ACCOUNTING POLICIES

Other operating income includes:

Commissions, backhauling, car park income and licence fees: *Income is recognised when the Group has satisfied its performance obligation by delivering a promised service to the customer in accordance with the transaction price agreed.*

Rental income: *Rental income is recognised on a straight-line basis based on the length of the contract and when the performance obligation of the contract is satisfied.*

Other income: *Other income is recognised when the services have been rendered to the customer and performance obligations have been met.*

	2021	2020
	£m	£m
Other operating income		
Commissions	70.1	80.7
Rental income	8.0	8.6
Backhauling income	6.8	6.7
Car park income	4.4	11.1
Licence fees	3.7	2.7
Other income	9.4	15.3
	102.4	125.1

Other income mainly relates to concession income and data provision for industry research. It is made up of items that individually are not material and no other material groups were considered to be shown.

2.4 OPERATING EXPENSES BEFORE EXCEPTIONAL ITEMS AND PARTNERSHIP BONUS

	2021	2020
	£m	£m
Operating expenses before exceptional items and Partnership Bonus		
Shop operating expenses	(2,141.1)	(2,190.4)
Administrative expenses	(1,038.5)	(1,066.5)
	(3,179.6)	(3,256.9)

In addition to the items disclosed in note 2.6, within operating expenses before exceptional items and Partnership Bonus we include charges such as marketing expenses, general rates and customer delivery.

2.5 EXCEPTIONAL ITEMS

Exceptional items are items of income/expense that are significant by virtue of their size and nature (see note 1.2.4). We believe these exceptional items are relevant for a better understanding of our underlying business performance, and exceptional items are therefore highlighted separately on the face of the income statement. This note provides detail of the exceptional items reported in both the current and prior year.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

KEY JUDGEMENTS

Exceptional items: *Exceptional items are those where, in management's opinion, their separate reporting provides a better understanding of the Group's underlying business performance; and which are significant by virtue of their size and nature. In considering the nature of an item, management's assessment includes, both individually and collectively, whether the item is outside the principal activities of the business; the specific circumstances which have led to the item arising; the likelihood of recurrence; and if the item is likely to recur, whether it is unusual by virtue of its size.*

No single criterion alone classifies an item as exceptional, and therefore management must exercise judgement when determining whether, on balance, presenting an item as exceptional will help users of the financial statements understand the Group's underlying business performance.

Exceptional items	2021 Operating (expense)/ income £m	2021 Taxation credit/ (charge) £m	2020 Operating (expense)/ income £m	2020 Taxation credit/ (charge) £m
Strategic restructuring and redundancy programmes				
Head office reviews	(96.1)	18.3	(35.6)	6.6
Physical estate	(93.7)	15.6	(27.4)	6.2
Shop operations	0.6	(0.1)	(0.7)	0.1
	(189.2)	33.8	(63.7)	12.9
Shop impairments (Waitrose)	9.6	(1.3)	13.3	(1.7)
Shop impairments (John Lewis)	(468.1)	72.2	(110.3)	13.9
John Lewis supply chain	–	–	9.1	(0.8)
Pay provision	(0.3)	0.1	–	–
Legal settlement	–	–	10.0	(1.9)
Pension closure	–	–	249.0	(42.3)
	(648.0)	104.8	107.4	(19.9)

Strategic restructuring and redundancy programmes

The Partnership Plan envisages a significant level of transformation to ensure the Group is thriving for both Partners and customers.

Given the scale of the transformation, the programmes of activity will take a number of years to deliver. The costs incurred over the life of the change programmes outlined are significant in value and, given the level of change, they are significant in nature, therefore the Group considers them exceptional items. The financial impact of these programmes for 2021 is detailed below:

Head office reviews: The transformation of Group functions and other head office operations continues at pace. Previously, the main focus, beginning at the end of 2017, was the review and centralisation of a number of head office functions. Given the scale of the change, the delivery of these reviews was expected to take four years. At the January 2020 year-end these reviews were well progressed and we expected that costs would continue over the next two years. However, due to Covid-19, the wider programme was delayed with some reviews being temporarily paused.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

With the launch of the Partnership Plan, the review of head office functions has become wider and deeper than previously envisaged and this has led to the announcement of the Head Office Transformation (HOT) programme. HOT builds on the centralisation of the earlier reviews but additionally seeks to ensure that the head office functions can deliver on the Lean, Simple, Fast objective central to cost reduction in the Partnership Plan. This stage of the head office reviews is well progressed and we still expect this programme to be broadly complete in the next 12-18 months. In 2021 we have recognised charges of £96.1m (2020: £35.6m) in relation to these reviews. The charges primarily relate to providing for redundancy costs; these costs are expected to be largely paid during 2021/22 but are provided once announced to Partners.

Physical estate: Since 2017 we have been working on our programme of optimising our existing estate and initially we expected that the programme would last five years. With the launch of the Partnership Plan, and the acceleration of change we have seen in customer shopping behaviour over the last year we have refocused on the need to ensure our shops reflect how our customers want to shop - 'right space, right place' - and as a result we anticipate that these changes may now be extended to 2025/26.

This year we have recognised a net exceptional charge of £93.7m (2020: £27.4m). The net charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous leases, dilapidations and, where closure has been approved and announced, redundancy costs. The impairment charge for the Waitrose and John Lewis shop closures during the year are included in this category. Where income in relation to previously estimated costs has been realised in the year, these have been shown net, reflecting that the original expenses were shown as exceptional.

Announcements were made on 24 March 2021 in relation to the proposed closure of eight shops. Since the shops were neither approved nor announced for closure as at 30 January 2021, no costs associated with closure or related redundancies have been included in the charge for the year.

Shop operations: Alongside the assessment of our physical estate, we also identified that the way in which we run and manage our shops would require adjustment. In order to improve the customer experience and efficiencies in our shops, we have made a number of changes in our shop operating models. This has included reviewing shop management structures, the centralisation of certain functions, and aligning regional offerings in order to deliver a more flexible, multi-skilled and productive model. This programme is now complete with a release of £0.6m (2020: £0.7m charge) recognised this year. The release in the current year reflects the release of redundancy provisions for the programme that were not utilised.

Included within operating expenses are £4.0m (2020: £2.5m) of restructuring and redundancy costs which are considered by the Group to be separate from our strategic programmes and part of the underlying business performance. These costs are therefore not separately reported as exceptional.

Shop impairments (Waitrose)

In 2021 a credit of £9.6m (2020: £13.3m credit) has been released as a result of improved shop performance where shop impairment had previously been charged as exceptional.

Shop impairments (John Lewis)

In 2020 as a result of challenging trading conditions and management's reassessment of the allocation of online sales to cash generating units (CGUs), an exceptional net impairment charge of £110.3m was recognised. The Covid-19 pandemic this year has further impacted John Lewis shop trade and the implementation of lockdown and closure of John Lewis shops has led to a surge in online orders. In light of the significant shift in customer shopping behaviour from shops to online through the pandemic, and our expectation that a proportion of customers will adopt a predominantly online shopping pattern in the future, we have reassessed and reduced this element of our allocation of online sales to shops compared to previous years. As such the allocation of online sales to shop CGUs was further reviewed and together with the impact of a revised trading forecast, an impairment charge of £468.1m (2020: £110.3m), was recognised. By virtue of the size of the charge, and that the circumstances which have led to the charge arising are unique and unusual, the charge has been recognised as exceptional.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.5 EXCEPTIONAL ITEMS (CONTINUED)

John Lewis supply chain

In 2017, a review of the John Lewis supply chain led to significant redundancy and restructuring costs which were recognised as exceptional. During the year to 25 January 2020, this restructure was finalised generating releases of £9.1m, principally in relation to a profit on property disposal of £7.6m. These releases were recognised as exceptional to be consistent with the original charges. There are no further charges or income expected in relation to the 2017 supply chain review.

Pay provision

In 2017 it was identified that there were rectification costs relating to the technical non-compliance with National Minimum Wage Regulations. The majority of these costs were settled in 2019, however the final payment arising from this investigation was made in May 2020 for £0.3m and has been recognised as exceptional to be consistent with the original charges. There are no future charges or income expected in relation to the 2017/18 investigation.

Legal settlement

The Group reached a settlement in relation to an ongoing legal dispute in 2020, receiving income of £10.0m. Due to the size and nature of this settlement, this income has been recognised as exceptional.

Pension closure

During the year to 25 January 2020, following the decision by Partnership Council on 15 May 2019 to close the defined benefit section of the pension scheme to future accrual from April 2020, a past service credit of £249.0m was recognised for the reduction in the pension obligation. Following closure, members' deferred pensions will now increase annually by inflation, which is generally lower than the previous pay growth assumption. Given the size and non-recurring nature of this credit, this income was recognised as exceptional.

2.6 (LOSS)/PROFIT BEFORE TAX

	2021 £m	2020 £m
Staff costs (note 2.8.2)	(1,806.1)	(1,603.8)
Depreciation ¹	(906.1)	(517.7)
Amortisation of intangible assets	(129.7)	(139.0)
Net profit on sale of property (including exceptional items)	11.9	42.7
Net loss on disposal of other plant and equipment and intangible assets	(1.9)	(4.2)
Net profit on lease exit ²	11.1	0.3
Inventory – cost of inventory recognised as an expense	(7,408.6)	(6,789.2)
Sub-lease income:		
– land and buildings	5.2	5.7

1 Included within depreciation is an impairment charge of £525.7m (2020: £117.8m) of which £6.9m (2020: £7.5m) is in Waitrose, £508.6m (2020: £110.3m) is in John Lewis and £10.2m is against central assets (2020: £nil).

2 Includes gain from the early termination of leases liabilities, less cost of the corresponding right-of-use asset and any termination payments or receipts.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.6 (LOSS)/PROFIT BEFORE TAX (CONTINUED)

Total auditor's remuneration is included within administrative expenses, and is payable to our auditor, KPMG LLP, as analysed below:

Auditor's remuneration	2021 £m	2020 £m
Audit and audit-related services:		
– Audit of the parent Company and consolidated financial statements	(0.4)	(0.4)
– Audit of the Company's subsidiaries	(1.0)	(0.6)
	(1.4)	(1.0)
Non-audit services:		
– Other assurance services	(0.2)	(0.1)
	(0.2)	(0.1)
Total fees	(1.6)	(1.1)

Notes to the consolidated financial statements (continued)

2.7 RECONCILIATION OF (LOSS)/PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

	2021 £m	2020 £m
(Loss)/profit before tax	(518.4)	145.3
Amortisation and write-offs of intangible assets	135.6	151.7
Depreciation ¹	906.1	517.7
Share of (profit)/loss of joint venture (net of tax)	(0.9)	0.2
Net finance costs	157.3	161.3
Partnership Bonus	–	30.9
Fair value (gains)/losses on derivative financial instruments	(0.3)	0.3
Profit on disposal of property, plant and equipment and intangible assets	(21.0)	(37.1)
(Increase)/decrease in inventories	(30.2)	45.8
Decrease/(increase) in receivables	80.0	(31.4)
Increase/(decrease) in payables	41.6	(39.5)
Decrease in retirement benefit obligations	(8.2)	(238.4)
Increase/(decrease) in provisions	78.4	(8.1)
Cash generated from operations before Partnership Bonus	820.0	698.7

¹ Includes net impairment charges. See note 3.2.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.8 PARTNERS

2.8.1 PARTNER NUMBERS

During the year the average number of Partners in the Group was as follows:

	2021	2020
John Lewis	23,900	27,200
Waitrose	54,300	51,300
Other	2,700	3,300
	80,900	81,800

2.8.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2021 £m	2020 £m
Staff costs:		
Wages and salaries	(1,538.3)	(1,506.0)
Social security costs	(114.4)	(110.6)
Partnership Bonus	–	(27.5)
Employers' National Insurance on Partnership Bonus	–	(3.4)
Other pension (charge)/credit (note 6.1.2)	(143.3)	45.0
Long leave cost	(10.1)	(1.3)
Total before Partner discounts	(1,806.1)	(1,603.8)
Partner discounts (excluded from revenue)	(104.1)	(74.3)
	(1,910.2)	(1,678.1)

2.8.3 KEY MANAGEMENT COMPENSATION

	2021 £m	2020 £m
Salaries and short-term benefits	(5.5)	(11.6)
Post-employment benefits ¹	(0.7)	(2.2)
Termination payments ²	(1.8)	(4.4)
	(8.0)	(18.2)

¹ Includes cash supplements in lieu of future pension accrual.

² Includes contractual payments and compensation for loss of office.

Key management includes the Directors of the Company and other officers of the Group. Key management compensation includes salaries, Partnership Bonus, National Insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable. Costs of key management compensation are included within operating expenses and exceptional items as applicable.

Key management participate in the Group's long leave scheme, which is open to all Partners and provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. It is not practical to allocate

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.8 PARTNERS (CONTINUED)

2.8.3 KEY MANAGEMENT COMPENSATION (CONTINUED)

the cost of accruing entitlement to this benefit to individuals, and therefore no allowance has been made for this benefit in the amounts disclosed.

2.8.4 DIRECTORS' EMOLUMENTS

Directors' emoluments have been summarised below. Further details of the remuneration of Directors of the Partnership Board is given in the parts of the Remuneration Committee Report noted as audited on pages 97 to 101 of the Partnership's Annual Report and Accounts.

	2021	2020
	£m	£m
Aggregate emoluments	(2.8)	(4.7)

2.9 TAXATION

Our Tax Strategy aligns to the Principles of our Constitution and, as a responsible leading retailer, we recognise that paying taxes arising from our activities is an important part of how our business contributes to the societies in which we operate. The Tax Strategy adopted by the Partnership Board is available on the Partnership's website. In addition, our total tax contributions are shown on page 35 of the Partnership's Annual Report and Accounts.

ACCOUNTING POLICIES

Taxation: *Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income/(expense), in which case it is recognised directly in other comprehensive income/(expense).*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax arising from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are enacted or substantively enacted at the balance sheet date that are expected to apply to the period when the asset is realised or the liability is settled.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

	2021 £m	2020 £m
Tax credited/(charged) to the income statement		
Current tax – current year	(5.2)	(17.6)
Current tax – adjustment in respect of prior years	6.1	(3.5)
Total current tax credit/(charge)	0.9	(21.1)
Deferred tax – current year	80.3	(24.1)
Deferred tax – rate change	(10.9)	4.5
Deferred tax – adjustment in respect of prior years	(4.9)	3.0
Total deferred tax credit/(charge)	64.5	(16.6)
	65.4	(37.7)
Tax credited to other comprehensive income		
Current tax on pension scheme ¹	1.6	2.5
Total current tax credit	1.6	2.5
Deferred tax on pension scheme	53.6	30.4
Deferred tax on cash flow hedges	0.3	3.2
Total deferred tax credit	53.9	33.6
	55.5	36.1

¹ An additional deficit funding contribution of £7.5m has been paid by the Group during the year (2020: £12.8m) in relation to the defined benefit pension scheme, resulting in a tax credit of £1.6m (2020: £2.5m) to the statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax charge for the year is lower (2020: higher) than the standard corporation tax rate of 19.0% (2020: 19.0%). The differences are explained below:

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR (CONTINUED)

	2021 £m	2020 £m
(Loss)/profit before tax	(518.4)	145.3
(Loss)/profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	98.5	(27.6)
Effects of:		
Changes in tax rate	(10.9)	4.5
Adjustment in respect of prior years	1.2	(0.5)
Depreciation on assets not qualifying for tax relief	(49.0)	(23.1)
Difference between accounting and tax base for land and buildings	29.1	11.6
Differences in overseas tax rates	–	0.4
Sundry disallowables	(3.5)	(3.0)
Total tax credit/(charge)	65.4	(37.7)
Effective tax rate (%)	12.6	25.9

2.9.3 DEFERRED TAX

Deferred tax is calculated on temporary differences using a tax rate of 19%. The movement on the deferred tax account is shown below:

	2021 £m	2020 £m
Deferred tax		
Opening net liability	(20.2)	(36.2)
Adjustment on initial application of IFRS 16 ¹	–	(1.0)
Adjusted opening net liability	(20.2)	(37.2)
Credited/(charged) to income statement	64.5	(16.6)
Credited to other comprehensive income/(expense)	53.9	33.6
Closing net asset/(liability)	98.2	(20.2)

¹ The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

The movements in deferred tax assets and liabilities during the year are shown below.

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 26 January 2019	(91.6)	(8.0)	(38.3)	–	(137.9)
Adjustment on initial application of IFRS 16 ¹	–	–	–	(1.0)	(1.0)
At 27 January 2019	(91.6)	(8.0)	(38.3)	(1.0)	(138.9)
Credited/(charged) to income statement	12.0	(2.7)	1.2	–	10.5
At 25 January 2020	(79.6)	(10.7)	(37.1)	(1.0)	(128.4)
Credited/(charged) to income statement	20.4	4.1	(0.3)	–	24.2
At 30 January 2021	(59.2)	(6.6)	(37.4)	(1.0)	(104.2)

¹ The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of Right-of-use assets for Lease contracts that were previously classified as operating leases. As a result the Group recognised a deferred tax liability of £1.0m related to Right-of-use assets from those lease contracts as at 27 January 2019. The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Deferred tax assets	Tax losses £m	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 26 January 2019	–	11.1	86.4	4.2	101.7
(Charged)/credited to income statement	–	(0.4)	(34.2)	7.5	(27.1)
Credited to other comprehensive income/(expense)	–	–	30.4	3.2	33.6
At 25 January 2020	–	10.7	82.6	14.9	108.2
Credited/(charged) to income statement	23.7	18.3	(2.4)	0.7	40.3
Credited to other comprehensive income/(expense)	–	–	53.6	0.3	53.9
At 30 January 2021	23.7	29.0	133.8	15.9	202.4

The deferred tax asset in relation to the defined benefit pension scheme is £104.9m (2020: £53.7m).

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset):

Deferred tax	2021 £m	2020 £m
Deferred tax assets	103.4	0.2
Deferred tax liabilities	(5.2)	(20.4)
Deferred tax net	98.2	(20.2)

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable. There are unrecognised deferred tax assets in respect of losses for the year ended 30 January 2021 relating to losses in John Lewis Hong Kong Limited of £0.9m (2020: £0.8m).

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the financial year ended 30 January 2010, following the contribution of the limited Group interest in JLP Scottish Limited Partnership to the pension scheme (see note 6.1). The deferred tax assets and liabilities are recoverable after more than one year.

As a result of exemptions on dividends from subsidiaries and capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements.

2.9.4 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

The Government announced in the spring Budget on 3 March 2021 that the rate of Corporation Tax will increase from April 2023 to 25% for companies with profits over £250,000. As at 30 January 2021 the legislation had not yet been substantively enacted and therefore the tax rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods after 1 April 2023 was 19%. The impact of the change is therefore not recognised in these financial statements but would have increased the net deferred tax asset by approximately £32.7m if it had been enacted before 30 January 2021. The impact will be reflected in the financial statements for the year ending 29 January 2022.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3 OPERATING ASSETS AND LIABILITIES

IN THIS SECTION

This section shows the assets used in generating the Group's performance and related future commitments. This includes intangible assets, property, plant and equipment, right-of-use assets, investment in and loans to our joint venture, as well as commitments for future expenditure which will be used to help generate our performance in future years. Assets held for sale are included within this section as they relate to current assets which have previously been used in delivering our results.

3.1 INTANGIBLE ASSETS

ACCOUNTING POLICIES

Intangible assets: *Intangible assets, comprising both purchased and internally developed computer software, are carried at cost less accumulated amortisation and impairments. The cost of internally developed software, including all directly attributable costs necessary to create, produce and prepare the software for use, is capitalised where the development meets the criteria for capitalisation required by IAS 38. This may include capitalised borrowing costs. Internally developed software assets that are not yet in use are reviewed at each reporting date to ensure that the development still meets the criteria for capitalisation, and is not expected to become impaired or abortive.*

Amortisation: *Once available for use, the purchased or internally developed software is amortised on a straight-line basis over its useful economic life, which is deemed to be between three and ten years. The assets' useful economic lives are reviewed and adjusted if appropriate at each balance sheet date.*

Impairment: *Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the amortised value may not be recoverable. An impairment loss is recognised for the amount by which the asset's amortised cost exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. The reversal of an impairment loss is recognised immediately as a credit to the income statement.*

KEY JUDGEMENTS

Value of intangible work in progress: *The Group has incurred a significant amount of development expenditure relating to intangible assets, particularly IT systems and software. These development costs are recorded within Work in Progress (WIP) on the balance sheet until the assets that they relate to are available for use. If management believe that a development project is no longer likely to result in the creation of a useful intangible asset, the related development expenditure should be reclassified from WIP and expensed as an abortive cost through the income statement. Management's judgement over the likely outcome of these development projects can therefore affect the level of abortive costs in any one year and the amount capitalised as intangible assets in the future.*

Management's review has concluded that the intangible WIP balances presented at the reporting date are expected to result in intangible assets as defined by IAS 38.

CRITICAL ACCOUNTING ESTIMATES

Amortisation: *Amortisation is recorded to write down intangible assets to a residual value of nil over their useful economic lives (UELs). Management must therefore estimate the appropriate UELs to apply to each class of intangible asset. Changes in the estimated UELs would alter the amount of amortisation charged each year, which could materially impact the carrying value of the assets in question over the long-term. UELs are therefore reviewed on an annual basis to ensure that they are in line with policy and that those policies remain appropriate.*

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.1 INTANGIBLE ASSETS (CONTINUED)

Impairment: As part of their impairment reviews, management must assess whether intangible assets will continue to deliver economic benefits in the future. Given the nature of these assets and the current pace of change within retail, previous estimates of economic benefit may be reduced if assets become obsolete or are likely to be superseded prior to the end of their UEL. Where a significant reduction in estimated future economic benefits occurs, it could result in a material impairment charge. Although the risk of a material impairment is reduced by capping intangible UELs at a maximum of 10 years and not applying residual values, intangibles are assessed at least annually for indications of impairment, which requires a degree of subjectivity on the part of management.

Intangible assets	Computer software			Total £m
	Purchased £m	Internally developed £m	Work in progress £m	
Cost				
At 26 January 2019	251.7	677.4	137.3	1,066.4
Additions ¹	–	–	137.6	137.6
Transfers	15.5	125.7	(141.2)	–
Disposals and write-offs	(21.8)	(29.7)	(12.7)	(64.2)
At 25 January 2020	245.4	773.4	121.0	1,139.8
Additions ¹	–	–	108.8	108.8
Transfers to assets held for sale	–	(0.1)	–	(0.1)
Transfers	20.3	96.1	(116.4)	–
Disposals and write-offs	(43.0)	(54.1)	(5.9)	(103.0)
At 30 January 2021	222.7	815.3	107.5	1,145.5
Accumulated amortisation				
At 26 January 2019	(177.2)	(377.1)	–	(554.3)
Charge for the year	(37.2)	(101.8)	–	(139.0)
Disposals and write-offs	20.1	28.9	–	49.0
At 25 January 2020	(194.3)	(450.0)	–	(644.3)
Charge for the year	(32.6)	(97.1)	–	(129.7)
Transfers to assets held for sale	–	0.1	–	0.1
Disposals and write-offs	44.4	51.9	–	96.3
At 30 January 2021	(182.5)	(495.1)	–	(677.6)
Net book value at January 2019	74.5	300.3	137.3	512.1
Net book value at January 2020	51.1	323.4	121.0	495.5
Net book value at January 2021	40.2	320.2	107.5	467.9

¹ For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on intangible assets of £1.1m (2020: £1.9m).

Intangible assets principally relate to customer and distribution projects with useful economic lives of up to ten years.

There are four individually significant assets within the total carrying amount of intangible assets as at 30 January 2021: two are customer projects (£141.3m, 2020: £134.0m) and two relate to distribution projects (£130.2m, 2020: £127.2m). These assets have useful economic lives ranging from three to ten years.

During the year to 30 January 2021, computer systems valued at £116.4m (2020: £141.2m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with useful economic lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS

ACCOUNTING POLICIES

Property, plant and equipment: *The cost of property, plant and equipment includes the purchase price and directly attributable costs of bringing the asset into working condition ready for its intended use. This may include capitalised borrowing costs.*

The Group's freehold and long leasehold properties were last revalued to fair value by the Directors, after consultation with CB Richard Ellis, Chartered Surveyors, as at 31 January 2004. These values have been incorporated as deemed cost, subject to the requirement to test for impairment in accordance with IAS 36. The Group has decided not to adopt a policy of revaluation since 31 January 2004.

Right-of-use assets: *Right-of-use assets are initially measured at cost, which is an amount equal to the corresponding lease liabilities (present value of future lease payments) adjusted for any lease payments made at or before the commencement date, less any lease incentives received. See note 5.6 for the lease liabilities accounting policy.*

Depreciation: *No depreciation is charged on freehold land or assets in the course of construction. Depreciation is calculated for all other assets to write off the cost or valuation, less residual value, on a straight-line basis over the following expected useful economic lives:*

Freehold and long leasehold buildings – 25-50 years

Other leaseholds – over the shorter of the useful economic life or the remaining period of the lease

Building fixtures – 10-40 years

Fixtures, fittings and equipment (including vehicles and information technology equipment) – 3-10 years

Property residual values are assessed as the price in current terms that a property would be expected to realise, if the buildings were at the end of their useful economic life. The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

For right-of-use assets depreciation is calculated on a straight-line basis over the expected useful economic life of the lease. Judgement is applied to estimate the lease UEL. This is done on an individual lease basis and considers the lease terms and the enforceable period of the lease.

Impairment: *Assets are reviewed for impairment at least annually or whenever events or circumstances indicate that the net book value may not be recoverable. Impairment testing is performed on cash generating units (CGUs) which are individual shops (including an allocation of online), this being the lowest level of separately identifiable cash flows. An impairment loss is recognised for the amount by which the asset's net book value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to dispose and value in use. Value in use calculations are performed using cash flow projections, discounted at a pre-tax rate, which reflects the asset specific risks and the time value of money.*

When an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of the recoverable amount, but ensuring the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the CGU in prior years. A reversal of an impairment loss is recognised as a credit to the income statement when recovery of performance is considered reasonably certain.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

KEY JUDGEMENTS

Application of residual values: *The application of residual values to shell assets on freehold and long leasehold properties is a key accounting judgement that impacts the depreciation charge recognised in respect of these assets. Management has assessed that it is appropriate to apply residual values to these assets as the buildings will retain significant value both during and at the end of their useful economic lives. This residual value could be realised through a sale of the property or a subletting arrangement. Management has therefore concluded that the application of residual values is consistent with the definition set out in IAS 16.*

CRITICAL ACCOUNTING ESTIMATES

Depreciation: *Depreciation is recorded to write down property, plant and equipment and right-of-use assets to their residual values over their useful economic lives (UELs). Management must therefore estimate the appropriate UELs to apply to each class of asset as set out in the accounting policy above. Changes in the estimated UELs would alter the amount of depreciation charged each year, which could materially impact the carrying value of the assets in question over the long term. UELs are therefore reviewed on an annual basis to ensure that they are in line with policy and that those policies remain appropriate.*

Impairment: *In line with the Group's accounting policy, management must assess the value in use of each CGU when testing for impairment. This requires estimation of the present value of future cash flows expected to arise from the continuing operation of the CGU. These estimates require assumptions over future sales performance; future costs; and long-term growth rates, as well as the application of an appropriate discount rate. As an omni-channel retailer, the presence of a physical shop plays an important role in generating and facilitating online sales. Judgement is required in relation to the proportion of online sales and costs allocated to the future cash flows of John Lewis shops to reflect the role that the shops play. The allocation is based on customer sales data (which identifies omni-channel customers), online shopping behaviour and physical touchpoints with a shop, including Click & Collect. In light of changing customer behaviours, with more customers now shopping purely online, we have reassessed our assumptions around the allocation of online sales to shops to better reflect this trend. The proportion of online sales allocated to shops has therefore been reduced this year.*

Were there to be significant changes in these estimations, the amount charged as impairment during the year could be materially impacted, or impairment charges recognised in previous years may be reversed.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

Property, plant and equipment	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 26 January 2019	4,626.2	1,948.4	53.0	6,627.6
Adjustment on initial application of IFRS 16 ¹	(23.1)	–	–	(23.1)
At 27 January 2019	4,603.1	1,948.4	53.0	6,604.5
Additions ²	–	–	189.8	189.8
Transfers	65.1	94.4	(159.5)	–
Disposals and write-offs	(118.2)	(84.3)	(1.7)	(204.2)
Transfers from assets held for sale ³	16.9	–	–	16.9
At 25 January 2020	4,566.9	1,958.5	81.6	6,607.0
Additions ²	16.3	–	119.7	136.0
Transfers	49.2	57.8	(107.0)	–
Disposals and write-offs	(188.6)	(119.5)	(0.2)	(308.3)
Transfers to assets held for sale	(20.2)	(6.1)	–	(26.3)
At 30 January 2021	4,423.6	1,890.7	94.1	6,408.4
Accumulated depreciation				
At 26 January 2019	(1,384.1)	(1,433.8)	–	(2,817.9)
Adjustment on initial application of IFRS 16 ¹	13.1	–	–	13.1
At 27 January 2019	(1,371.0)	(1,433.8)	–	(2,804.8)
Charge for the year ⁴	(210.2)	(154.4)	–	(364.6)
Disposals and write-offs	24.6	82.2	–	106.8
Transfers from assets held for sale ³	(9.0)	–	–	(9.0)
At 25 January 2020	(1,565.6)	(1,506.0)	–	(3,071.6)
Charge for the year ⁴	(405.2)	(154.1)	–	(559.3)
Disposals and write-offs	74.8	117.9	–	192.7
Transfers to assets held for sale	7.6	5.7	–	13.3
At 30 January 2021	(1,888.4)	(1,536.5)	–	(3,424.9)
Net book value at January 2019	3,242.1	514.6	53.0	3,809.7
Net book value at January 2020	3,001.3	452.5	81.6	3,535.4
Net book value at January 2021	2,535.2	354.2	94.1	2,983.5

¹ The Group has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in place of lease assets. As a result at 27 January 2019 land and building assets with a net book value £10.0m have been reallocated and recognised as right-of-use assets. The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

² For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £24.4m (2020: £26.6m).

³ Transfers from assets held for sale in the year ended 25 January 2020 includes the reclassification of a property with a net book value of £9.4m back to property, plant and equipment due to changes in circumstances. This is offset by properties with a total carrying value of £1.5m which have been recorded as held for sale at year-end at 25 January 2020.

⁴ For the year ended 30 January 2021 this includes an impairment charge of £274.0m to land and buildings (2020: £85.3m) and £41.8m in fixtures and fittings (2020: £14.1).

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

	Land and buildings	Fixtures, fittings and equipment	Total
	£m	£m	£m
Right-of-use assets			
Cost			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019 ¹	1,938.1	4.9	1,943.0
Additions	80.5	–	80.5
Disposals and write-offs	(17.2)	–	(17.2)
At 25 January 2020	2,001.4	4.9	2,006.3
Additions	91.1	43.5	134.6
Disposals and write-offs	(118.5)	(0.2)	(118.7)
At 30 January 2021	1,974.0	48.2	2,022.2
Accumulated depreciation			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019 ¹	–	–	–
Charge for the year ²	(152.1)	(1.0)	(153.1)
Disposals and write-offs	1.7	–	1.7
At 25 January 2020	(150.4)	(1.0)	(151.4)
Charge for the year ²	(343.8)	(3.0)	(346.8)
Disposals and write-offs	16.1	0.1	16.2
At 30 January 2021	(478.1)	(3.9)	(482.0)
Net book value on initial application of IFRS 16 at 27 January 2019 ¹	1,938.1	4.9	1,943.0
Net book value at January 2020	1,851.0	3.9	1,854.9
Net book value at January 2021	1,495.9	44.3	1,540.2

1 The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets for assets under lease contracts. As a result the Group recognised £1,943.0m of right-of-use assets from those lease contracts as at 27 January 2019. The Group has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

2 For the year ended 30 January 2021 this includes an impairment charge of £209.9m (2020: £18.4m).

In accordance with IAS 36, the Group reviews its property, plant and equipment for impairment at least annually or whenever events or circumstances indicate that the value on the balance sheet may not be recoverable.

The impairment review compares the recoverable amount for each CGU to the carrying value on the balance sheet and includes right-of-use assets. The key assumptions used in the impairment review are the discount rate, long-term growth rate, expected sales performance and costs, the allocation of online sales to shops in the determination of the John Lewis shop CGU and market valuations considered in fair value less costs of disposal calculations.

The value in use calculation is based on five-year cash flow projections using the latest budget and forecast data. In John Lewis different growth expectations are applied to online and shop sales. Any changes in sales performance and costs are based on past experience and expectations of future changes in the market. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2% for both Waitrose and John Lewis. A pre-tax discount rate of 7% for Waitrose (2020: 7%) and 10% for John Lewis (2020: 7%) has been used, calculated by reference to the Group's Weighted Average Cost of Capital (WACC) which now includes Group lease debt under IFRS 16.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

The impact of the Covid-19 pandemic has had differing impacts on the Group's two brands and has most significantly adversely impacted the trade in John Lewis shops and online. The Covid-19 pandemic has resulted in UK lockdowns and social distancing measures which have triggered an acceleration of change in customer shopping behaviour. The Group has witnessed a move to online for general merchandise and grocery over a number of years and the pace of transition has accelerated significantly during the past year. We anticipate that when 'normal' returns, the proportion of sales arising from online and shop channels will be reweighted to favour online and a significant proportion of John Lewis customers who have previously shopped across both channels will retain a predominantly online shopping pattern with reduced visits to physical shops. This has led to a revision of the Group's financial targets and a reassessment of how we allocate online sales to CGUs for the purpose of impairment testing of John Lewis shops.

Following the impairment review, the Group recognised a net impairment charge arising from shop performance and trading conditions as an exceptional item of £458.5m across property, plant and equipment and right-of-use assets; £468.1m charge in John Lewis and £9.6m credit in Waitrose. Additionally, £52.7m was recognised in relation to our Physical Estate programme and represents the impairment of assets in our shop closure programme, £40.5m in John Lewis, £2.0m in Waitrose, and the exit of a head office location. A further £14.5m relating to Waitrose was charged but not recognised as exceptional. The total impairment charge for the year is £525.7m.

John Lewis shop impairment

The UK Government's implementation of trade restrictions in response to the Covid-19 pandemic and the change in customer buying patterns both represent impairment triggers. As such all John Lewis shops have been tested for impairment.

The impairment review performed considers the VIU of a CGU compared to the carrying value in the first instance and subsequently the fair value less cost to dispose if the VIU is lower than the CGU carrying value.

Cash forecasts

The calculations use a pre-tax cash flow based on a five-year plan approved by the Partnership Board. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2%. The key assumptions in this plan are the recovery of John Lewis shop sales from the impact of Covid-19 restrictions, year on year sales growth and margin assumptions. The plan differentiates between online and shop sales growth, which is relevant to our shop CGUs which continue to include an allocation of online sales.

The John Lewis shop impairment is most sensitive to changes in sales and margin forecasts and the allocation of online sales, and therefore sensitivity analysis has focused on these aspects of the impairment evaluation. Modelling a scenario of slower sales and margin recovery for John Lewis shops by reducing both the sales and margin growth assumptions in year 1 by 100bps, results in an additional impairment of £89m.

Online allocation

Judgement is required as to whether online sales (and associated costs) should be attributed to John Lewis shops for the purposes of impairment testing. Management believes that a proportion of online sales, made by customers who shop both online and in store ("omni-channel"), should be attributed to John Lewis shops. This reflects the role our shops play in providing customers with an opportunity to browse, touch, and feel our product range before purchasing online. The merchandising of the product offer in our physical estate provides inspiration for our customers who may then choose to purchase online (in particular for larger items and more considered purchases in our Home offer). For these reasons, John Lewis allocates online sales to shops based on Click & Collect online sales, and a further proportion of online sales of omni-channel customers to reflect the role the shop plays in facilitating online purchases. This further allocation is based on evidence of a customer's physical touchpoint with a shop through previous purchasing behaviour. In light of the significant shift in customer shopping behaviour from shops to online through the pandemic, and our expectation that a proportion of customers will adopt a predominantly online shopping pattern in the future, we have reassessed and reduced this element of our allocation of online sales to shops compared to previous years. The allocation of the sales and the weighting of the drivers (i.e. Click & Collect versus greater allocation to reflect the role the shop plays in facilitating online sales) varies by shop.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.2 PROPERTY, PLANT AND EQUIPMENT, AND RIGHT-OF-USE ASSETS (CONTINUED)

Given the pace of change in customer behaviour and the transition to online purchasing, we have run sensitivities to reflect what a further shift in customer shopping behaviour and therefore online allocation would generate in terms of impairment. If an additional 10% of online sales were allocated to shop CGUs this reduces the impairment charge by £74m, whereas a 10% reduction from the current assumption of online allocation would result in an increased impairment charge of £118m. If the online allocation assumptions were reduced such that only online sales serviced through in store Click & Collect were allocated to CGUs, this would further increase the impairment provision by £284m.

Market valuations

External market valuations are regularly obtained by the Group and used within the consideration of fair value less cost to dispose. In light of the Covid-19 pandemic and in consideration of the available market for department store properties, these valuations have been reassessed at the year-end and where applicable revised down.

Discount rate

The discount rate used in the calculation of cash flows is derived from the John Lewis Weighted Average Cost of Capital (WACC). This has increased since the year-end. A number of factors have contributed to this increase as the markets respond to the Covid-19 pandemic; the Group's gross debt has increased and the average comparative equity betas used in our calculations have risen to reflect the higher level of risk in the market for general merchandise. A reduction in the discount rate assumption of 100 bps would decrease the John Lewis impairment charge by £13m, and an increase of 100 bps would increase the impairment charge by £16m.

Waitrose shop impairment

The impairment calculations for Waitrose shops use a pre-tax cash flow based on a five-year plan approved by the Partnership Board. The forecasts are then extrapolated beyond the five-year period using a long-term growth rate of 2%. The key assumptions in this plan concern the stabilisation of sales and margin following the disruption of lockdown. Waitrose online sales are allocated directly to the shop that the online order is picked and fulfilled from. Online sales are therefore included in the Waitrose CGUs and as the sales are directly attributable to shop activity, this is not considered a key judgement.

The increase in the Waitrose impairment provision is a net £6.9m. This represents additional impairment for a small number of shops that have seen specific performance deterioration, reversals on other shops which have seen improved performance and which has been judged to be sustainable, and utilisation of the provision following the exit of previously impaired shops. The discount rate used in the calculation of cash flows is derived from the Waitrose Weighted Average Cost of Capital (WACC). This has reduced from the 19/20 year-end, primarily driven by the decrease in the Group's underlying bond rates.

The discount rate used in the calculation of cash flows is derived from the Waitrose Weighted Average Cost of Capital (WACC). This has reduced from the 19/20 year-end, primarily driven by the decrease in the Group's underlying bond rates.

The Waitrose impairment estimation is most sensitive to changes in the sales growth and margin assumptions. The below sensitivities reflect realistic and reasonable variations to the forecast currently used by the Group:

- Reducing the sales growth rate assumption by 200 bps in year 1 and flowing through into years 2-5 would result in an additional impairment charge of £2.2m;
- Reducing the long-term growth rate to nil would result in an additional impairment charge of £3.1m;
- Amending the forecast gross margin stabilisation by reducing the gross margin assumption by 50 bps in years 1 and 2 would result in an additional impairment charge of £7.1m; and
- Increasing the discount rate by 100 bps would result in an additional impairment charge of £1.3m.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

3.3 INVESTMENT IN AND LOANS TO JOINT VENTURE

ACCOUNTING POLICIES

Joint arrangements: *The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.*

Interests in joint ventures are accounted for using the equity method after initially being recognised at cost in the consolidated balance sheet.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

John Lewis plc and Clipper Logistics plc are both investors in Clicklink Logistics Limited. Each party owns 50.0% of the equity of Clicklink Logistics Limited and decisions regarding Clicklink Logistics Limited require the unanimous consent of both parties.

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 26 January 2019	2.1	2.0	4.1
Additions	–	–	–
At 25 January 2020	2.1	2.0	4.1
Additions	–	–	–
At 30 January 2021	2.1	2.0	4.1
Share of profit/(loss)			
At 26 January 2019	(1.4)	–	(1.4)
Share of loss	(0.2)	–	(0.2)
At 25 January 2020	(1.6)	–	(1.6)
Share of profit	0.9	–	0.9
At 30 January 2021	(0.7)	–	(0.7)
At 26 January 2019	0.7	2.0	2.7
At 25 January 2020	0.5	2.0	2.5
At 30 January 2021	1.4	2.0	3.4

3.4 ASSETS HELD FOR SALE

At 30 January 2021, one property asset in Waitrose was recorded as held for sale with a total carrying value of £10.6m, and has been sold since the year-end. At 25 January 2020, three property assets in Waitrose were recorded as held for sale with a total carrying value of £1.5m.

3.5 COMMITMENTS AND CONTINGENCIES

At 30 January 2021, contracts had been entered into for future capital expenditure of £35.5m (2020: £20.2m) of which £30.5m (2020: £14.3m) relates to property, plant and equipment and £5.0m (2020: £5.9m) relates to intangible assets.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

4 WORKING CAPITAL AND PROVISIONS

IN THIS SECTION

Working capital represents the assets and liabilities that the Group generates through its day-to-day trading activities. This section shows the elements of working capital, including inventories, trade and other receivables and trade and other payables. Provisions are also included in this section as they represent operating liabilities.

4.1 INVENTORIES

ACCOUNTING POLICIES

Inventory valuation: Inventory is stated at the lower of cost, which is computed on the basis of average unit cost, and net realisable value. Inventory excludes merchandise purchased by the Group on a sale or return basis, where the Group does not have the risks and rewards of ownership. Slow-moving and obsolete inventory is assessed for impairment at each reporting period based on past experience and an appropriate provision is made. Inventory also includes a 'right to return goods' asset, which represents the value of inventory expected to be returned as a result of customers exercising their rights under the Group's returns policy. The expected level of returns is based on past experience.

Inventory	2021 £m	2020 £m
Raw materials	3.2	3.2
Work in progress	0.2	0.3
Finished goods and goods for resale	640.5	609.4
	643.9	612.9

Provisions against inventories of £34.2m were charged (2020: £22.8m charged) to cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £19.0m (2020: £16.9m). This relates to the Group's expected returns inventory based on previous rates of return.

4.2 TRADE AND OTHER RECEIVABLES

ACCOUNTING POLICIES

Trade receivables: Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less allowances for expected credit losses, using the simplified approach under IFRS 9. Such allowances are based on an individual assessment of each receivable, which is informed by past experience, and are recognised at amounts equal to the losses expected to result from all possible default events over the expected life of the financial asset. The Group also performs analysis on a case-by-case basis for particular trade receivables with irregular payment patterns or history.

Supplier income (shown as part of accrued income): The price that the Group pays suppliers for goods is determined through negotiations with suppliers regarding both the list price and a variety of rebates and discounts. The principal categories of rebate income are in the form of volume and marketing rebates. Supplier income is broadly split evenly between the two categories as follows:

Volume rebates: Volume rebates are earned based on sales or purchase triggers set over specific periods, such as the number of units sold to customers or purchased from the supplier. Volume rebates are recognised over the period set out in the supplier agreement.

Marketing rebates: Marketing rebates include promotions, mark downs or marketing support provided by suppliers. Marketing rebates are agreed with suppliers for specific periods and products.

Rebate income (shown as part of trade receivables) is recognised when the Group has contractual entitlement to the income, it can be estimated reliably and it is probable that it will be received.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

4.2 TRADE AND OTHER RECEIVABLES (CONTINUED)

Rebate income recognised is recorded against cost of sales and inventory, which is adjusted to reflect the lower purchase cost for the goods on which a rebate has been earned. Depending on the agreement with suppliers, rebates invoiced are either received in cash from the supplier or netted off against payments made to suppliers.

For promotions which are confirmed after the balance sheet date, the Group is sometimes required to estimate the amounts due from suppliers at the year-end. Estimates of supplier income are accrued within accrued income, and are based on a review of the supplier agreements in place and of relevant sales and purchase data.

The majority of rebates are confirmed before the year-end, therefore the level of estimate and judgement required in determining the year-end receivable is limited.

Trade and other receivables	2021 £m	2020 £m
Current:		
Trade receivables	48.2	85.3
Other receivables	111.1	101.4
Prepayments	54.3	88.7
Accrued income	37.2	45.6
	250.8	321.0
Non-current:		
Other receivables	15.1	16.0
Prepayments	2.9	0.5
	18.0	16.5

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in Sterling. Within trade receivables is supplier income which has been invoiced where there is no legal right to offset. Included in trade payables are invoices for supplier income where there is a right to offset and the Group intends to offset against amounts owed to suppliers (see note 4.3).

Within accrued income, there is £14.7m (2020: 13.4m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £12.1m (2020: 21.8m) in relation to other operating income items (see note 2.3) which has not been billed at the reporting date. The unbilled amounts of other operating income is made up of items that are not individually material for further disclosures and had no significant changes during the period.

The Group recognises loss allowances for expected credit losses within operating expenses in the income statement. As at 30 January 2021, trade and other receivables of £2.1m (2020: £1.5m) were partially or fully impaired. As at 30 January 2021, trade and other receivables of £38.9m (2020: £35.2m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2021 £m	2020 £m
Up to 3 months past due	37.1	33.2
3 to 12 months past due	1.5	1.3
Over 12 months past due	0.3	0.7
	38.9	35.2

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

4.3 TRADE AND OTHER PAYABLES

ACCOUNTING POLICIES

Trade payables: Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Deferred income: Deferred income is recognised when the Group has received cash in advance of providing a good or service. It includes revenue in respect of free warranties for Technology products. The Group allocates a portion of the consideration received for the Technology product to the free warranty on a cost plus margin basis. The amount allocated to the free warranty is deferred and recognised as revenue over the period of the guarantee on a straight-line basis.

CRITICAL ACCOUNTING ESTIMATES

Liabilities: Liabilities recognised in this note at the reporting date include amounts for unredeemed gift vouchers and gift cards. In order to estimate these liabilities, management must make assumptions around likely redemption rates. Management must therefore exercise a degree of estimation when predicting redemption patterns based on actual experience.

Deferred income: In relation to free warranties, deferred income is based on the expected future repair or replacement costs for all goods sold with a free warranty, plus a margin. The expected future costs are based on historical evidence of claims and costs to repair or replace. Management exercise a degree of estimation regarding the margin percentage.

Trade and other payables	2021 £m	2020 £m
Current:		
Trade payables	(997.3)	(915.6)
Amounts owing to parent undertakings ¹	(111.7)	(111.6)
Other payables	(146.8)	(158.5)
Other taxation and social security	(133.7)	(169.3)
Accruals	(162.1)	(159.1)
Deferred income	(103.1)	(83.5)
Partnership Bonus	–	(27.6)
	(1,654.7)	(1,625.2)
Non-current:		
Other payables	(0.1)	(0.1)
Deferred income	(44.9)	(46.7)
	(45.0)	(46.8)

¹ The Group operates the BonusSave scheme (the scheme), a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Group (see note 8.2.3). Included within amounts owed to parent company is a balance of £104.2m in relation to the SIP shares in issue, of which £71.1m relates to SIP shares in issue but not allocated to Partners. There is an offsetting equivalent balance in relation to these shares included within other receivables. The remaining £33.1m relates to SIP shares held directly by Partners.

The carrying amount of trade and other payables approximates to fair value.

Included in deferred income are contract liabilities for free warranties of £35.6m (2020: £42.4m) and payments from customers for goods and services sold but not delivered of £71.5m (2020: £50.0m). During the year an amount of £25.9m (2020: £26.8m) was released to the income statement in relation to free warranties matching to the period over which the free warranties are utilised. The deferral for the year was £19.0m (2020: £19.2m). All of the contract liabilities for goods and services sold but not delivered at 25 January 2020 have been recognised as revenue in the year ended 30 January 2021.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

4.4 PROVISIONS

ACCOUNTING POLICIES

Provisions: Provisions are recognised when the Group has an obligation in respect of a past event, it is more likely than not that payment (or a non-cash settlement) will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted when the time value of money is considered material.

Employee benefits: The Group has a scheme to provide up to six months' paid leave after 25 years' service (long leave). The cost of providing the benefits under the scheme is determined using the projected unit credit actuarial valuation method. The current service cost is included within operating profit in the consolidated income statement. The financing elements of long leave are included in finance costs in the consolidated income statement. Actuarial gains or losses are taken directly to the consolidated income statement.

CRITICAL ACCOUNTING ESTIMATES

Provisions: As the provision for liabilities under the long leave scheme is assessed on an actuarial basis, estimates are required for the appropriate discount rate, staff turnover, salary increases and inflation. Significant movements in these assumptions could cause a material adjustment to the carrying amount of the provision.

Provisions	Long leave £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total £m
At 25 January 2020	(153.5)	(28.8)	(25.3)	(21.9)	(24.0)	(253.5)
Charged to income statement	(15.6)	(37.2)	(8.8)	(131.5)	(37.6)	(230.7)
Released to income statement	11.3	–	–	12.6	9.6	33.5
Utilised	7.1	28.8	7.4	50.4	1.0	94.7
At 30 January 2021	(150.7)	(37.2)	(26.7)	(90.4)	(51.0)	(356.0)
Of which:						
Current	(36.5)	(37.2)	(11.4)	(90.4)	(18.1)	(193.6)
Non-current	(114.2)	–	(15.3)	–	(32.9)	(162.4)

The Group has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, salary growth, National Insurance and overtime earnings assumptions. The real discount rate applied differs from the real discount rate used for the Group's retirement benefits (note 6.1) as it reflects a rate appropriate to the shorter duration of the long leave liability, so as to accrue the cost over Partners' service periods. Illustrated below is the sensitivity of the long leave provision to changes in key assumptions. The sensitivities have been derived using approximate methods which are consistent with the rest of the disclosure:

	£m	% change
Long leave provision as at 30 January 2021	(150.7)	
Sensitivity of 0.1% increase to:		
- Discount rate	1.5	1.0%
- Salary growth	(1.5)	(1.0%)

Provisions for customer refunds reflect the Group's expected liability for returns of goods sold based on experience of rates of return.

Provisions for insurance claims are in respect of the Group's employer's, public and vehicle third-party liability insurances. The provisions are based on reserves held in the Group's captive insurance company, JLP Insurance Limited. These reserves are established using independent actuarial assessments wherever possible, or a reasonable assessment based on past claims experience.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

4.4 PROVISIONS (CONTINUED)

Provisions for reorganisation reflect restructuring and redundancy costs, principally in relation to head office reviews and shop closures. Within the current year, the reorganisation provision is a £66.3m provision for redundancies arising from the HOT programme. As this programme was in its early stages at the year-end date the provision contains a significant degree of estimation and is sensitive to changes in assumptions on the number of Partners who leave through redundancy and the average salary and average service of those Partners. If 100 fewer Partners left through redundancy than expected, the provision would decrease by approximately £4.4m.

Other provisions primarily include property-related costs.

5 FINANCING

IN THIS SECTION

This section sets out what makes up our net finance costs, which are costs to service our financial and pension debt and income generated on our cash and investment balances. We also include revaluation movements on certain financial assets and liabilities. Information on the significant components of net debt is given in this section, including cash and cash equivalents, borrowings and overdrafts and leases.

5.1 NET FINANCE COSTS

	2021 £m	2020 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	(2.0)	(1.3)
Other loans repayable within five years ¹	(28.1)	(26.2)
Other loans repayable in more than five years	(12.9)	(12.7)
Interest payable in relation to lease liabilities	(104.2)	(104.2)
Amortisation of issue costs of bonds and credit facilities	(2.6)	(1.5)
Finance costs in respect of borrowings	(149.8)	(145.9)
Fair value measurements and other	(2.5)	(3.6)
Net finance costs arising on defined benefit retirement scheme	(7.8)	(6.9)
Net finance costs arising on other employee benefit schemes	(8.5)	(18.6)
Total finance costs	(168.6)	(175.0)
Finance income		
Finance income in respect of cash and short-term investments ²	8.8	11.4
Fair value measurements and other	2.5	2.3
Total finance income	11.3	13.7
Net finance costs	(157.3)	(161.3)

¹ Other loans repayable within five years includes interest payable on interest rate swaps of £5.3m (2020: £5.8m).

² Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £6.1m (2020: £6.1m).

Capitalised borrowing costs totalled £2.2m (2020: £5.1m) of which £2.1m (2020: £4.6m) were capitalised within Intangible assets and £0.1m (2020: £0.5m) were capitalised within property, plant and equipment.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

5.2 ANALYSIS OF NET DEBT

	2020	Cash movements	Other non-cash movements	2021
	£m	£m	£m	£m
Non-current assets				
Derivative financial instruments	0.1	–	–	0.1
	0.1	–	–	0.1
Current assets				
Cash and cash equivalents	598.3	919.9	–	1,518.2
Short-term investments	317.2	(316.1)	(0.8)	0.3
Derivative financial instruments	4.8	(3.6)	6.0	7.2
	920.3	600.2	5.2	1,525.7
Current liabilities				
Borrowings and overdrafts	–	–	(75.0)	(75.0)
Unamortised bond transaction costs	–	–	–	–
Lease liabilities	(95.4)	194.3	(226.2)	(127.3)
Derivative financial instruments	(18.7)	8.2	(10.4)	(20.9)
	(114.1)	202.5	(311.6)	(223.2)
Non-current liabilities				
Borrowings	(725.1)	(150.0)	75.1	(800.0)
Unamortised bond transaction costs	9.4	0.8	(1.4)	8.8
Fair value adjustment for hedged element on bonds	(2.8)	–	(1.4)	(4.2)
Lease liabilities	(1,999.5)	–	89.5	(1,910.0)
Derivative financial instruments	(3.9)	–	1.2	(2.7)
	(2,721.9)	(149.2)	163.0	(2,708.1)
Total net debt	(1,915.6)	653.5	(143.4)	(1,405.5)

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

5.2 ANALYSIS OF NET DEBT (CONTINUED)

	2021 £m	2020 £m
Reconciliation of net cash flow to net debt		
Increase/(decrease) in net cash and cash equivalents in the year	919.9	(118.5)
Cash (inflow)/outflow from movement in short-term investments	(316.1)	51.4
Cash outflow from movement in other net debt items	49.7	462.1
Cash movement in net debt for the year	653.5	395.0
Opening net debt	(1,915.6)	(30.1)
Adjustment on initial application of IFRS 16 ¹	–	(2,078.0)
Non-cash movement in net debt for the year	(143.4)	(202.5)
Closing net debt	(1,405.5)	(1,915.6)

¹ The Group initially applied IFRS 16 at 27 January 2019 and recognised £2.1bn of lease liabilities on the balance sheet. The Group applied IFRS 16 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Our total borrowings and lease liabilities are summarised below.

	Borrowings £m	Lease liabilities £m	Total £m
At 26 January 2019	(1,000.0)	(21.1)	(1,021.1)
Adjustment on initial application of IFRS 16 ¹	–	(2,078.0)	(2,078.0)
At 27 January 2019	(1,000.0)	(2,099.1)	(3,099.1)
Movements arising from financing cash flows	274.9	196.9	471.8
Other non-cash movements	–	(192.7)	(192.7)
At 25 January 2020	(725.1)	(2,094.9)	(2,820.0)
Movements arising from financing cash flows	(150.0)	194.3	44.3
Other non-cash movements	0.1	(136.7)	(136.6)
At 30 January 2021	(875.0)	(2,037.3)	(2,912.3)

¹ The Group has initially applied IFRS 16 at 27 January 2019 and recognised £2.1bn of lease liabilities on the balance sheet. The Group applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

Borrowings exclude unamortised bond transaction costs of £8.8m (2020: £9.4m) and the fair value adjustment for hedged element on bonds of £4.2m loss (2020: £2.8m loss).

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

5.3 SHORT-TERM INVESTMENTS

ACCOUNTING POLICIES

Short-term investments: *Short-term investments comprise tradable securities and deposits with original maturities of greater than 90 days but less than one year. Maturity periods are not the sole factor. Investments in Variable Net Asset Values (VNAV) with a weighted average maturity of less than 90 days, are included within short-term investments due to the fact they do not bear an insignificant risk of changes in value.*

	2021	2020
	£m	£m
Short-term investments	0.3	317.2

For the year ended 30 January 2021, the effective interest rate on short-term investments was 0.7% (2020: 1.1%) and these investments had an average maturity of 75 days (2020: 62 days).

The decrease in short-term investments year on year reflects a temporary shift from short-term investments to cash and cash equivalents. This shift provided quicker access to cash, helping to mitigate uncertainty and possible trading volatility caused by Covid-19.

5.4 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES

Cash and cash equivalents: Cash and cash equivalents on the balance sheet comprise cash at bank and in hand and short-term deposits with original maturities of less than 90 days which are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, net cash and cash equivalents comprise cash and cash equivalents, as defined above, net of bank overdrafts.

	2021	2020
	£m	£m
Cash and cash equivalents		
Cash at bank and in hand	178.2	151.2
Short-term deposits	1,340.0	447.1
	1,518.2	598.3

For the year ended 30 January 2021, the effective interest rate on short-term deposits was 0.2% (2020: 0.7%) and these deposits had an average maturity of two days (2020: three days).

At 30 January 2021, £11.8m (2020: £13.4m) of the Group's cash balance and £nil (2020: £nil) of the Group's accrued interest balance was pledged as collateral. This is part of the Group's insurance arrangements and the release of these funds is subject to approval from third parties.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

5.5 BORROWINGS AND OVERDRAFTS

ACCOUNTING POLICIES

Borrowings: Borrowings are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost. Where there is an effective related fair value hedge, the movement in the fair value attributable to the hedged risk is separately disclosed.

Arrangement costs for bonds and loan facilities in respect of debt are capitalised and amortised over the life of the debt at a constant rate. Finance costs are charged to the income statement, based on the effective interest rate of the associated borrowings.

Borrowing costs attributable to the acquisition or construction of a qualifying asset are capitalised. Qualifying assets are those that take a substantial period of time to get ready for their intended use. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred. Capitalisation ceases when the asset is ready for its intended use. The capitalisation rate used to determine the borrowing costs eligible for capitalisation is 3.1% (2020: 4.7%).

Borrowings and overdrafts	2021 £m	2020 £m
Current:		
Bank loans ¹	(75.0)	–
	(75.0)	–
Non-current:		
Bank loans ¹	(200.0)	(125.1)
6½% Bonds, 2025	(300.0)	(300.0)
4¼% Bonds, 2034	(300.0)	(300.0)
Unamortised bond and loan transaction costs	8.8	9.4
Fair value adjustment for hedged element on bonds	(4.2)	(2.8)
	(795.4)	(718.5)

¹ Additional bank loans were agreed in 20/21. See section 7.1.2.

All borrowings are unsecured, denominated in Sterling and are repayable on the dates shown, at par.

5.6 LEASE LIABILITIES

ACCOUNTING POLICIES

Lease liabilities: The Group assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities at the lease commencement date. The lease liabilities are initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate and this rate is determined on a portfolio basis, in relation to asset type and location.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

5.6 LEASE LIABILITIES (CONTINUED)

Lease liabilities are subsequently measured at amortised cost and are increased by the interest charge and decreased by the lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a renewal or purchase option is reasonably certain to be exercised or a break clause is reasonably certain not to be exercised.

The Group has elected to apply the exemption for recognising right-of-use assets and lease liabilities on the balance sheet where the underlying asset is of low value. Lease expenses relating to low value assets will be recognised in the income statement on a straight-line basis.

In relation specifically to vehicle leases, the Group has also elected to apply the exemption for short-term leases and therefore will not recognise right-of-use assets and lease liabilities on the balance sheet for vehicle leases of less than 12 months in duration.

Contingent rentals are recognised as an expense in the income statement when incurred.

Sub-lease income is recognised as other operating income on a straight-line basis over the sub-lease term, less allowances for situations where recovery is doubtful.

Sale and leaseback: *A sale and leaseback transaction is where the Group sells an asset and immediately leases back the same asset from the buyer. On sale, the property, plant and equipment asset is derecognised from the balance sheet and the Group measures a right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the rights of use retained by the Group. The Group also recognises a lease liability at the date of the transaction. Any gain or loss that relates to the rights of the buyer is recognised in the income statement.*

KEY JUDGEMENTS

Lease terms: *The Group has applied judgement to determine the lease term for those lease contracts that include a renewal or break option. The assessment of whether the Group is reasonably certain to exercise a renewal option or reasonably certain*

not to exercise a break option significantly impacts the value of lease liabilities and right-of-use assets recognised on the balance sheet.

Extension options and break clauses are included in a number of the Group's leases. These are used to maximise flexibility in terms of managing the assets used in the Group's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not utilise a break clause. Extension options (or periods after break clauses) are only included in the lease term if the lease is reasonably certain to be extended (or break clause not utilised).

For leases of shops, distribution centres, offices and vehicles, the following factors are considered the most relevant:

- If there are significant penalties to break leases (or not extend), the Group is typically reasonably certain to extend (or not to utilise the break clause); and*
- The Group considers other factors including the likely value of future rentals, the importance of the underlying assets to the Group's operations, whether the asset is specialised in nature and the costs and business disruption required to replace the leased asset.*

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

5.6 LEASE LIABILITIES (CONTINUED)

The following amounts are included in the Group's consolidated financial statements in respect of its leases:

	2021 £m	2020 £m
Depreciation charge for right of use assets (excluding impairment) (see note 3.2)	(136.9)	(134.7)
Interest expense on lease liabilities	(104.2)	(104.2)
Expense relating to short-term leases	(0.8)	(0.8)
Expense relating to leases of low-value assets that are not shown above as short-term leases	(1.8)	(1.8)
Expense relating to variable lease payments not included in lease liabilities	(3.2)	(5.5)
Total cash outflow for leases comprising interest and capital payments (see note 5.2)	(194.3)	(196.9)
Additions to right-of-use assets (see note 3.2)	134.6	80.5
Carrying amount of right-of-use assets (see note 3.2)	1,540.2	1,854.9
Gains arising from sale and leaseback transactions ¹	12.7	14.8
Income from sub-leasing right-of-use assets	5.2	5.7

¹ The Group completed sale and leaseback transactions during the year in relation to 11 shops (2020: 7 shops). Cash proceeds of £136.2m (2020: £103.7m) were received.

We currently do not disclose potential future undiscounted lease payments not included in lease liabilities as these are subject to a high level of judgement regarding expected lease extension terms and future end dates. Additionally, the value of rental payments are subject to future market rates applicable as at the date of extension which are parameters not yet publicly known. As a result, we do not consider the potential future undiscounted lease payments to be able to be reliably estimated. There were no leases not yet commenced to which the Group is committed that are not included in lease liabilities as at the year-end.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6 PENSIONS

IN THIS SECTION

This section sets out our net pension liability, which is the current cost of meeting future defined pension payments, offset by assets held by the scheme to meet these liabilities.

6.1 RETIREMENT BENEFITS

ACCOUNTING POLICIES

Employee benefits: *The defined benefit scheme assets are held separately from the Group. The cost of providing benefits under the defined benefit section of the scheme is determined using the projected unit credit actuarial valuation method, which measures the liability based on service completed and allows for projected future increases.*

The current service cost is the increase in the present value of the retirement benefit obligation resulting from employees' service in the current year; up to 1 April 2020. The current service cost is included within operating profit in the consolidated income statement. Following the closure of the defined benefit section of the pension scheme, no future current service costs will be recognised.

The past service cost represents the change in the present value of the retirement benefit obligation in relation to employees' service in prior years. This may arise as a result of amendments made to the defined benefit scheme during the year, or a reduction in the number of employees covered by the scheme. Past service costs are also included within operating profit, along with any gains or losses on settlement.

Remeasurements of defined benefit pension schemes due to experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income during the period in which they arise.

There are a number of unfunded pension liabilities, where the actuarially assessed costs of providing the benefit are charged to the consolidated income statement. There are no assets supporting these arrangements.

Contributions to the Group's defined contribution section are charged to the income statement as they are incurred. The Group has no further obligation once the contributions have been made.

The Group also has a scheme to provide up to six months' paid leave after 25 years' service (long leave). The liability relating to long leave is included within provisions in note 4.4.

CRITICAL ACCOUNTING ESTIMATES

Retirement benefits: *This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation requires the application of a discount rate to estimate the present day fair value of the pension payments, as well as assumptions on mortality rates, salary increases and inflation. Given the size of the Group's defined benefit obligation, relatively small movements in these assumptions could cause a material adjustment to the carrying amount of the obligation. Sensitivity analysis on the discount rate and other key assumptions is provided in note 6.1.5.*

Retirement benefits

The pension scheme operated by the Group is the John Lewis Partnership Trust for Pensions. The scheme is governed by a corporate Trustee which is independent of the Group. The Trustee is responsible for the operation and governance of the scheme, including making decisions regarding the scheme's investment strategy.

The scheme includes a funded final salary defined benefit section, providing pensions and death benefits to members. This scheme closed to new members and future accrual on 1 April 2020 and all active members of the scheme moved to become deferred members.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

Following closure, members' deferred pensions will now increase annually by inflation up to 5% per annum (measured using CPI), which is generally lower than the previous pay growth assumption and resulted in a reduction of the defined benefit obligation on closure. The accounting impact of the closure was a reduction in the defined benefit obligation of £156.0m. This reflected a past service gain of £249.0m, recognised as an exceptional credit at 25 January 2020, representing the break in future salary linkage. The gain was partially offset by a £93.0m actuarial loss, recognised through equity. This reflected a decrease in future expected commutation of the defined benefit pensions (i.e. exchanging defined benefit pensions for tax-free cash), as the defined contribution element of Partners' total pension entitlement increases. All contributions to the defined benefit section of the pension scheme to meet the obligations are funded by the Group.

On 20 January 2017, the Group announced changes in the way that the annual discretionary increase for pension in retirement built up before 6 April 1997 would be applied. Prior to January 2017, increases in pension in retirement for pensionable service built up before 6 April 1997 had been granted in line with the Retail Price Index (RPI) inflation (up to a maximum of 5%). From January 2017, this increase is granted in line with CPI inflation (up to a maximum of 2.5%).

The scheme also includes a defined contribution section. Contributions to the defined contribution section of the scheme are made by both Partners and the Group.

Funding valuation

The pension scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Group. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient funds available to meet future benefit payments.

The most recent valuation has been carried out by an independent professionally qualified actuary as at 31 March 2019. As part of the triennial actuarial valuation of the scheme, underlying membership data was updated as at 31 March 2019. This resulted in an actuarial gain as at 25 January 2020, recognised through equity, of £160.6m, reflecting the difference between actual experience compared to assumptions made in estimating the asset and liability growth. Pension commitments recognised in these financial statements have been calculated based on that updated membership data rolled forward for known movements.

The valuation at 31 March 2019 resulted in a funding deficit of £58.0m (31 March 2016: £479.0m). The market value of the assets of the scheme as at 31 March 2019 was £6,012.0m (31 March 2016: £4,377.0m). The actuarial valuation showed that these assets were sufficient to cover 99% (31 March 2016: 90%) of the benefits which had accrued to members.

The valuation calculated under the funding valuation basis of £58.0m is different from the accounting valuation which is presented on the balance sheet in the Group's financial statements of £646.9m. Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2019 and 30 January 2021.

For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Group and Scheme Actuary. The discount rate used for the funding valuation as at 31 March 2019 is based on index linked gilt yields plus 2.2% and 0.8% for pre and post retirement respectively.

In the financial statements the liabilities are determined in accordance with IAS 19. The discount rate used for the accounting valuation is based on high quality (AA) corporate bond yields of an appropriate term.

As a result of the funding valuation, the Group and the Trustee agreed to put in place a plan to eliminate the deficit of £58.0m over a six-year period. As part of this plan, it was agreed that deficit reducing contributions would be paid in equal monthly instalments from 1 April 2020 to 31 March 2026 totalling £10m per annum.

The next triennial actuarial valuation of the scheme will take place as at 31 March 2022.

During the year, the Group and the Trustee also agreed a long term derisking framework, see section 6.1.4 for more details.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

Pension commitments recognised in these accounts have been calculated based on the most recent actuarial valuation, as at 31 March 2019, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 30 January 2021, calculated on assumptions that are appropriate for accounting under IAS 19.

Risk management

The cost of the scheme to the Group depends upon a number of assumptions about future events. Future contributions may be higher or lower than those currently agreed if these assumptions are not borne out in practice or if different assumptions are agreed in the future.

Specific risks include:

- Changes in future expectations of price inflation: The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. Hence, an increase in inflation will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4.
- Changes in the discount rate used to value pension liabilities: A lower discount rate will lead to a higher present value being placed on future pension payments. Hence, a reduction in discount rate will increase the deficit. This is offset in part by the Trustee's liability matching scheme as detailed in 6.1.4.
- The return on assets being lower than assumed: If the rate of growth in assets falls below the discount rate used to value the liabilities then the pension deficit will increase. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4.
- Falls in asset values not being matched by similar falls in the value of liabilities: As the majority of assets held by the scheme are not matched to the liabilities of the scheme, a fall in plan assets will lead to an increase in the deficit. This is offset in part by the Trustee's investment strategy of holding a highly diversified portfolio of return seeking assets as detailed in 6.1.4; and
- Unanticipated increase in life expectancy leading to an increase in the scheme's liabilities: An increase in life expectancy would mean pensions are expected to be paid for a longer period, so increasing the liability and the scheme's deficit. This is offset in part by the scheme applying a Life Expectancy Adjustment Factor, whereby future pensions coming into payment are adjusted to allow for increases in life expectancy.

6.1.1 ASSUMPTIONS

This section details the assumptions used to calculate the total defined benefit pension obligation. This is the estimate of the current cost of meeting future benefits to be paid out by the pension scheme. The calculation includes applying a discount rate to estimate the present day fair value of the pension payments, allowing for future expected increases in earnings and pension payments and the life expectancy of the members of the pension scheme.

Financial assumptions

Scheme assets are stated at market values at 30 January 2021. The following financial assumptions have been used to value the obligation:

	2021	2020
Discount rate	1.55%	1.90%
Future RPI inflation	2.75%	2.80%
Future CPI inflation	2.30%	2.00%
Increase in pensions – in payment		
Pre-April 1997	1.75%	1.60%
April 1997-April 2016	2.65%	2.70%
Post-April 2016	1.75%	1.60%
Increase in pensions – deferred	2.30%	2.00%

Nominal discount rate: IAS 19 Employee Benefits requires that the nominal discount rate is set by reference to market yields on high quality corporate bonds of a suitable term consistent with the scheme cash flows. Where there are no high quality

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.1 ASSUMPTIONS (CONTINUED)

corporate bonds of appropriate duration to reference, an extrapolation from other bond yields is required. The Group's pension scheme has cash flows spanning out over 50 years and an average duration of 23 years. At long durations there are few suitable high quality corporate bonds to reference in setting the nominal discount rate assumption. The model adopted by the Group is a yield curve approach, based on corporate bonds within the iBoxx AA corporate bond index. At very long durations, where there are no high quality corporate bonds of appropriate duration to reference, the yield curve is extrapolated based on observable corporate bond yields of mid to long durations reflecting expected yields on high quality corporate bonds over the duration of the Group's pension scheme.

Future RPI and CPI inflation: The inflation assumptions used to calculate the defined benefit pension obligations are based on a cash flow weighted Bank of England RPI, which is then adjusted for inflation risk. As at 30 January 2021, in order to reflect the impact of recent confirmation by the UK Chancellor and the UK Statistics Authority (UKSA) to align the RPI with CPIH (a variant of the Consumer Price Index that includes an estimate of housing costs) from 2030, the assumptions applied to adjust for the inflation risk premium and the long-term gap between RPI and CPI were reassessed for the period beyond 2030. An inflation risk premium of 0.2% has been applied until 2030, increasing to 0.5% beyond this date (an average margin of 0.35%). A long-term gap of 1.0% between RPI and CPI has been applied until 2030, reducing to 0.1% beyond this date (an average long-term gap of 0.45%). The impact of these changes has resulted in an actuarial loss of £68.5m recognised in equity.

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2020: S2 Light) series standard tables. Based on scheme experience, the probability of death at each age was multiplied by 127% for males and 106% for females. Future improvements in life expectancy have been allowed for in line with the CMI 2018 improvements model with a smoothing parameter of 7.0 (2020: CMI 2018, smoothing parameter of 7.0) subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2021		2020	
	Male	Female	Male	Female
Average life expectancy for a 65 year old (in years)	21.1	23.4	21.0	23.3
Average life expectancy at age 65, for a 50 year old (in years)	22.0	24.5	21.9	24.5

6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS

This section details the amounts recognised in our consolidated financial statements in relation to the defined benefit section of our pension scheme. This consists of the net pension liability, recognised on our balance sheet, the cost of providing the pension benefit over the year, recognised in the income statement, and actuarial gains and losses (being changes in assumptions, or assumptions not being borne out in practice) which are recognised in the statement of comprehensive income/(expense). The movements are broken down into the key components that impact the defined benefit section of the pension scheme.

	2021	2020
	£m	£m
Amounts recognised in the balance sheet		
Defined benefit obligation for funded arrangements	(7,422.8)	(6,798.9)
Defined benefit obligation for unfunded arrangements	(20.7)	(22.1)
Total defined benefit obligation	(7,443.5)	(6,821.0)
Total value of scheme assets	6,796.6	6,403.6
Defined benefit liability at end of year	(646.9)	(417.4)

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.2 AMOUNTS RECOGNISED IN THE FINANCIAL STATEMENTS (CONTINUED)

The cost of providing the pension scheme over the year, recognised in the consolidated income statement, is broken down as follows:

Service cost is the cost to the Group of future benefits earned by members which is attributable to members' service in the current period. Following the closure of the defined benefit section of the pension scheme on 1 April 2020, no further service costs will be recognised.

Contribution expense is in respect of the Group's contributions to the defined contribution section of the pension scheme and cash supplements in respect of certain Partners in lieu of future pension accrual.

Administrative expenses are in relation to the pension scheme.

Net interest on the net defined benefit liability is made up of the interest cost on pension liabilities and interest income on pension assets.

Amounts recognised in the income statement	2021 £m	2020 £m
Current service cost	(18.9)	(109.1)
Past service gain as a result of closure ¹	–	249.0
Contribution expense ²	(107.9)	(82.0)
Administrative expenses – funded by the pension scheme	(7.7)	(7.0)
Administrative expenses – funded by the employer	(8.8)	(5.9)
Total operating (expense) / income	(143.3)	45.0
Net interest on net defined benefit liability	(7.8)	(6.9)
Total pension (charge) / credit	(151.1)	38.1

¹ This was recognised as exceptional income, see note 2.5 for details.

² Includes Group contributions to the defined contribution section of the pension scheme of £105.7m (2020: £78.0m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £2.2m (2020: £4.0m). Of the total contribution expense, £0.3m was recognised as an exceptional expense, see note 2.5 for details.

Amounts recognised in equity	2021 £m	2020 £m
Return on plan assets greater than interest income	412.6	693.6
Remeasurements:		
– loss from changes in financial assumptions	(618.1)	(1,004.3)
– loss from changes in demographic assumptions	(64.4)	(43.5)
– experience gains	32.5	160.6
Total loss recognised in equity	(237.4)	(193.6)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS

The net defined benefit pension liability is the difference between the total pension liability (being the expected cost of making future defined benefit pension payments) and scheme assets. The table below details movements in the net defined benefit pension liability during the year. Movements in scheme assets are explained further in 6.1.4.

Movements in the net defined benefit liability are as follows:

Pension expense, which is the cost associated with providing defined benefit pension benefits over the year. This is equal to the pension operating expense set out above in 6.1.2, but excluding contribution expense and administrative expenses met directly by the employer.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS (CONTINUED)

Contributions paid into the scheme will reduce the value of the net pension liability.

Gains or losses recognised in equity relating to returns on plan assets being different to the interest income and remeasurements (explained further below).

Reconciliation of net defined benefit liability	2021	2020
	£m	£m
Net defined benefit liability at beginning of year	(417.4)	(468.1)
Pension (charge)/credit	(34.4)	126.0
Contributions	42.3	118.3
Total losses recognised in equity	(237.4)	(193.6)
Net defined benefit liability at end of year	(646.9)	(417.4)

The total pension liability (or defined benefit obligation) represents the current cost of meeting the future benefits to be paid out by the scheme. The movements in the defined benefit obligation are broken down into key areas that impact the obligation as follows:

Service cost is the cost to the Group of future benefits earned by members which are attributable to members' service in the current period. The service cost is charged to the income statement, along with any gains or losses on settlement. Following the closure of the defined benefit section of the pension scheme, there will be no further current or past service costs recognised from 1 April 2020.

Future pension obligations are stated at present value. A discount rate is used to calculate the current value of the future liability. The interest on pensions liabilities is the unwinding of this discount rate and is charged to the income statement within net finance costs.

Remeasurements arise from the uncertainty in making assumptions about future events when calculating the liability. These may arise from changes in assumptions, for example movements in the discount rate, or experience adjustments which result from differences between the assumptions made and what actually occurred over the period. Remeasurements are recognised in –equity and shown in the statement of comprehensive income/(expense).

Any cash benefits paid out by the scheme will reduce the defined benefit obligation.

Reconciliation of defined benefit obligation	2021	2020
	£m	£m
Defined benefit obligation at beginning of year	(6,821.0)	(6,083.0)
Past service gain as a result of closure	–	249.0
Current service cost	(18.9)	(109.1)
Interest on pension liabilities	(128.1)	(159.3)
Remeasurements		
– loss from changes in financial assumptions	(618.1)	(1,004.3)
– loss from changes in demographic assumptions	(64.4)	(43.5)
– experience gains	32.5	160.6
Benefits paid	174.5	168.6
Defined benefit obligation at end of year	(7,443.5)	(6,821.0)

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS (CONTINUED)

The scheme liabilities are nil in respect of active scheme participants, 71.2% in respect of deferred scheme participants and 28.8% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 23 years (2020: 22 years).

The pension scheme holds a number of investments to meet future pension payments, referred to as the assets of the scheme. This note details movements in the value of pension assets during the year. The movements are broken down into key areas that impact the pension assets as follows:

Interest income on assets represents the expected return on investments if it is in line with the discount rate. It is calculated as the discount rate at the beginning of the year multiplied by the value of the assets at the beginning of the year. This is recognised within net finance costs in the income statement.

Return on plan assets greater/(less) than interest income represents how much greater or less the actual return is than the interest income. This is recognised in equity and shown in the statement of comprehensive income/(expense).

Any cash benefits paid out or expenses paid by the scheme will reduce the value of the scheme's assets.

Contributions paid into the scheme will increase the value of the scheme's assets.

	2021	2020
	£m	£m
Reconciliation of value of assets		
Value of assets at the beginning of year	6,403.6	5,614.9
Interest income on assets	120.3	152.4
Return on plan assets greater than interest income	412.6	693.6
Benefits paid	(174.5)	(168.6)
Administrative expenses paid	(7.7)	(7.0)
Contributions	42.3	118.3
Value of assets at the end of year	6,796.6	6,403.6

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.4 ANALYSIS OF ASSETS

	2021				2020			
	Quoted £m	Unquoted £m	Total £m	Total	Quoted £m	Unquoted £m	Total £m	Total
Equities								
UK	37.4	24.6	62.0	0.9%	45.7	39.0	84.7	1.3%
Rest of the world	769.9	1,163.7	1,933.6	28.4%	887.5	1,178.2	2,065.7	32.3%
Bonds								
Government – Rest of the world	203.5	2.1	205.6	3.0%	113.8	0.1	113.9	1.8%
Corporates – UK	11.9	0.9	12.8	0.2%	3.6	–	3.6	<0.1%
Corporates – Rest of the world	221.6	217.2	438.8	6.5%	86.5	113.6	200.1	3.1%
Property								
UK	–	496.9	496.9	7.3%	–	516.9	516.9	8.1%
Rest of the world	–	0.1	0.1	<0.1%	–	0.1	0.1	<0.1%
Alternative assets								
Liability driven investments	–	1,709.2	1,709.2	25.1%	–	1,530.4	1,530.4	23.9%
Hedge funds	–	588.1	588.1	8.7%	–	642.9	642.9	10.0%
Private equity	–	418.4	418.4	6.2%	–	375.5	375.5	5.9%
Other alternative assets	–	687.4	687.4	10.1%	–	613.2	613.2	9.6%
Cash and other								
	243.7	–	243.7	3.6%	256.6	–	256.6	4.0%
Total market value of assets	1,488.0	5,308.6	6,796.6	100.0%	1,393.7	5,009.9	6,403.6	100.0%

The Trustee's investment strategy was revised during the year and is contained in their Statement of Investment Principles dated 25 September 2020. That investment strategy which the Trustee consulted upon with the Group is to target full funding on a low dependency basis by 2044. The Trustee will pursue an investment strategy that generates investment returns in excess of government bonds but with a risk level that is commensurate with the strength of the covenant. During the year the Trustee and the Group agreed a derisking framework to help determine the appropriate allocation to the Return-Seeking portfolio based on improvements in the Trust's funding level at a given point in time, with the overall aim of reducing risk and reducing the Scheme's future reliance on the Group. The Trustee has commenced activity since the year-end and as a result, £809.4m of the Scheme's investment in equities has been moved into lower risk investments.

The interest rate hedging at the year-end was 100% of assets and the inflation coverage was 80%.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.4 ANALYSIS OF ASSETS (CONTINUED)

In 2018, the Trustee implemented an equity hedge strategy. Its objective was to reduce the value-at-risk contribution from equities by approximately 50% while giving up limited upside in a market rally. This is achieved by replicating a portfolio of long-dated, at-the-money put options whilst selling short-dated, out-of-the-money call options. This is structured as a total return swap. The equity hedge was half unwound towards the end of 2018 and was taken off completely in March 2020 as it had achieved its objective.

Equities, bonds and certain alternative assets which are traded on active markets are included at the quoted price, which is normally the bid price. Properties are valued by independent valuers who have recent experience of the locations and type of properties held. Equities and alternative assets that are neither quoted nor traded on an active market are stated at fair value estimates provided by the manager of the investment or fund.

Liability driven investments include UK Government bond and cash equivalent assets valued at £3,693.8m (2020: £3,221.5m) and associated repurchase agreements and swaps valued at £(1,984.6)m (2020: £(1,691.1)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £308.4m (2020: £309.0m), insurance linked funds £79.7m (2020: £95.1m), private debt £299.3m (2020: £239.2m) and equity options £nil (2020: £(30.1)m).

Cash and other includes cash deposits of £235.8m (2020: £247.4m), forward foreign exchange contracts valued at £8.7m (2020: £12.6m) and other items valued at £(0.8)m (2020: £(3.4)m).

	2021 £m	2020 £m
Actual return on assets		
Interest income on assets	120.3	152.4
Return on plan assets greater than interest income	412.6	693.6
Actual return on assets	532.9	846.0

6.1.5 SENSITIVITY ANALYSIS

The defined benefit deficit is volatile given that it is based on a number of long-term assumptions, which are likely to change over time. Illustrated below is the sensitivity of the defined benefit obligation to changes in key assumptions.

The sensitivities have been derived using approximate methods which are consistent with the rest of the disclosure:

	£m	% change
Defined benefit obligation as at 30 January 2021	(7,443.5)	
Sensitivity of 0.1% increase to:		
– Discount rate ¹	170.3	2.3
– Retail price inflation	(34.7)	(0.5)
– Consumer price inflation	(76.5)	(1.0)
Sensitivity of one-year increase in life expectancy	(274.9)	(3.7)

¹ The discount rate sensitivity does not allow for the impact of the Trustee's investment strategy. As set out in note 6.1.4 this is designed to offset movements in the discount rate and their impact on the liabilities.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.6 OTHER ARRANGEMENTS

JLP Scottish Limited Partnership

On 30 January 2010, the Group entered into an arrangement with the Pension Scheme Trustee to address an element of the scheme deficit that existed at that time.

The Group established two partnerships, JLP Scottish Limited Partnership and JLP Scottish Partnership, which are both consolidated within these Group financial statements.

Together with another Group company, JLP Scottish Limited Partnership provided sufficient capital to JLP Scottish Partnership to enable it to procure property assets with a market value of £150.9m from other Group companies. The Group retains control over these properties, including the flexibility to substitute alternative properties. The properties held in JLP Scottish Partnership have been leased back to John Lewis plc and Waitrose Limited.

As a partner in JLP Scottish Limited Partnership, the pension scheme is entitled to an annual share of the profits of the JLP Scottish Limited Partnership each year over 21 years. At the end of this period, the partnership capital allocated to the pension scheme will be reassessed, depending on the funding position of the pension scheme at that time, with a potential value in the range of £0.5m to £99.5m. At that point, the Group may be required to transfer this amount in cash to the scheme.

Under IAS 19, the investment held by the pension scheme in JLP Scottish Limited Partnership, a consolidated entity, does not represent a plan asset for the purpose of the Group's consolidated financial statements. Accordingly, the pension deficit position presented in these consolidated accounts does not reflect the £76.6m (2020: £73.8m) investment in JLP Scottish Limited Partnership held by the pension scheme. The distribution of JLP Scottish Limited Partnership profits to the pension scheme is reflected as pension contributions in these consolidated financial statements on a cash basis.

John Lewis Properties plc guarantee

As part of agreeing the funding valuation in 2017, John Lewis Properties plc provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme, then the pension scheme can claim against John Lewis Properties plc for those payments. As part of the guarantee, John Lewis Properties plc is required to maintain at least £760.0m of net assets.

Waitrose Limited guarantee

As part of agreeing the funding valuation in 2020, Waitrose Limited provided a corporate guarantee to the pension scheme. This guarantee means that if John Lewis plc fails to make any payments due to the scheme, then the pension scheme can claim against Waitrose Limited for those payments. There is no requirement for Waitrose Limited to maintain a minimum net asset position.

The guarantees have improved the recovery to the pension scheme in the event of insolvency of the Group.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

7 FINANCIAL RISK MANAGEMENT

IN THIS SECTION

This section sets out the policies and procedures applied to manage the financial risks to which the Group is exposed. A breakdown of our derivative financial instruments is given here as they are used by the Group to manage financial volatility. An analysis of our financial assets and liabilities is also given.

7.1 MANAGEMENT OF FINANCIAL RISKS

7.1.1 CAPITAL AND LONG-TERM FUNDING RISK

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, provide returns for its Partners and to maintain a prudent level of funding. The Group is a long-term business, held in Trust for the benefit of its Partners. The co-ownership model means that it is not able to raise equity externally.

The Group's capital management strategy is to maintain a prudent capital structure, with the aim of maintaining a financial risk profile consistent with an investment grade credit rating to ensure the long-term financial sustainability of the Partnership. Although the Group does not have an external credit rating, it routinely monitors its capital and liquidity requirements, primarily through the Debt Ratio (see page 4), whilst maintaining an appropriate level of liquidity (cash plus undrawn committed credit facilities) and a managed debt maturity profile to reduce refinancing risk and ensure continuity of funding. Forms of borrowing include bond issues, bank debt, assets acquired via leases and the pension deficit.

7.1.2 LIQUIDITY RISK

In line with the Partnership Board approved Treasury Standard, the Group is required to hold a minimum amount of liquidity, made up of a mixture of cash and undrawn committed credit facilities. Liquidity requirements are managed in line with short and long-term cash flow forecasts and reviewed against the Group's debt portfolio and maturity profile. Surplus cash is invested in interest bearing accounts, short-term deposits and other short-term investments with sufficient, prudent liquidity determined by the above mentioned cash flow forecasts. The Group actively reviews and manages its cash holdings, sources of debt and committed credit facilities. Greater emphasis has been placed on cash balances providing a material portion of the Group's overall liquidity, with undrawn committed credit facilities complementing these balances.

At the year-end, the Group had undrawn committed credit facilities of £500m (2020: £500.0m), of which £64.3m matures in November 2021, £50m matures in September 2022 and £385.7m matures in November 2022. In addition to these facilities, the Group had listed bonds at the year-end totalling £600.0m (2020: £600.0m), with £300.0m due to mature in 2025 and the remaining £300.0m due to mature in 2034. The bonds have fixed coupons. Bank loans totalling £150.0m were agreed during 2020/21 in addition to £125.0m of bank loans already existing (2020: £125.0m), of which £75.0m matures in Q4 2021, £150.0m matures in Q4 2022 and £50.0m in Q4 2023. The loans have variable interest payments. The maturity profiles of financial debt are set out below. In May 2020 the Group's application to the Bank of England and HM Treasury CCFF was approved and £300m was drawn down. The CCFF was repaid in January 2021.

The Group's listed bonds, bank loans and committed credit facilities contain financial covenants. In April 2020 in response to the Covid-19 pandemic, the Group's banking group agreed to a relaxation of the financial covenant contained within the committed credit facilities. Throughout the year the Group maintained comfortable headroom against its covenants (for further detail see pages 20 to 23).

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.2 LIQUIDITY RISK (CONTINUED)

The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative financial liabilities at the balance sheet date:

	Carrying amount £m	Total contractual cash flows £m	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities					
Borrowings and overdrafts	(870.4)	(875.0)	(75.0)	(150.0)	(650.0)
Interest payments on borrowings	-	(262.0)	(37.0)	(35.0)	(190.0)
Lease liabilities ¹	(2,037.3)	(3,254.8)	(211.3)	(211.7)	(2,831.8)
Trade and other payables	(1,306.3)	(1,306.3)	(1,306.2)	(0.1)	-
Derivative financial liabilities					
Derivative contracts – receipts	-	448.4	356.0	80.2	12.2
Derivative contracts – payments	-	(464.1)	(372.4)	(81.7)	(10.0)
At 30 January 2021	(4,214.0)	(5,713.8)	(1,645.9)	(398.3)	(3,669.6)

¹ The lease liabilities due 2 years and beyond can be further broken down as £(609.9)m 2-5 years, £(696.3)m 5-10 years, £(744.3)m 10-15 years and £(781.3)m 15 years and beyond.

	Carrying amount £m	Total contractual cash flows £m	Due within 1 year £m	Due between 1 and 2 years £m	Due 2 years and beyond £m
Non-derivative financial liabilities					
Borrowings and overdrafts	(718.5)	(725.1)	-	(75.0)	(650.1)
Interest payments on borrowings	-	(289.6)	(34.1)	(33.6)	(221.9)
Lease liabilities	(2,094.9)	(3,628.4)	(199.2)	(200.8)	(3,228.4)
Trade and other payables	(1,260.9)	(1,260.9)	(1,260.8)	(0.1)	-
Derivative financial liabilities					
Derivative contracts – receipts	-	475.4	367.1	89.9	18.4
Derivative contracts – payments	-	(493.5)	(383.0)	(93.2)	(17.3)
At 25 January 2020	(4,074.3)	(5,922.1)	(1,510.0)	(312.8)	(4,099.3)

For the purposes of this note, the foreign currency element of forward foreign currency contracts is translated at spot rates prevailing at the year-end.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.3 INTEREST RATE RISK

In order to manage the risk of interest rate fluctuations on the Group's financial debt and cash, the Group targets a range of fixed and floating rate debt in line with the Partnership Board approved Treasury Standard. An analysis of the Group's financial liabilities is detailed below. Exposures to interest rate fluctuations are managed, when required, using interest rate derivatives. The Group has converted £100.0m of fixed rate debt to floating rate debt using interest rate swap contracts. The interest rate swap contracts are designated as fair value hedges and fair value movements are recognised within the income statement. Derivative financial instruments recognised as fair value hedges during the year were effective.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of GBP LIBOR with alternative risk-free rates, and the Financial Conduct Authority (FCA) has confirmed that all GBP LIBOR settings will cease after 31 December 2021. The Group has some exposure to Sterling LIBOR on its borrowings and financial instruments. To transition existing contracts and agreements that reference GBP LIBOR, adjustments for term differences and credit differences might need to be applied. The greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating rate debt and interest rate swaps. However, the changed reference rate will also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications. The Group has applied the following reliefs that were introduced by the amendments made to IFRS 9 Financial Instruments in September 2019:

- When considering the 'highly probable' requirement, the Group has assumed that the adjustments for term differences will mean that the interest rate used after the reform will be the same as if still referenced to GBP LIBOR;
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that adjustments for term differences will mean that the interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based, is not altered; and
- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

7.1.4 FOREIGN CURRENCY RISK

The Group uses derivative financial instruments to manage exposures to movements in exchange rates arising from transactions with overseas-based suppliers and other organisations. Foreign exchange management committees exist for each of Waitrose and John Lewis, and they meet regularly to oversee the foreign exchange purchasing activities for each brand. Foreign currency exposures are hedged primarily using forward foreign exchange contracts covering up to 100% of forecast direct exposures on a rolling basis. Forward foreign exchange contracts used to hedge forecast currency requirements are designated as cash flow hedges with fair value movements recognised in equity. Derivative financial instruments that were designated as cash flow hedges during the year were effective. At the balance sheet date, the notional value of open forward foreign currency contracts of £425.2m (2020: £444.7m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In addition, the Group purchased \$200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options, which expired in February 2020, and \$200m of Sterling/US dollar options, which expired in January 2021, in order to help manage its indirect currency risk. The indirect risk hedged is defined as the Group's economic exposure to the change in price of goods and services which have foreign currency input costs, but which are predominantly paid for in Sterling.

7.1.5 CREDIT RISK

The Group has no significant exposure to an individual customer's credit risk due to transactions being principally of a high volume, low value and short maturity. Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. These risks are managed by restricting such transactions to an approved list of counterparties, who have an investment grade credit rating by at least two of the three primary rating agencies. Appropriate credit limits are designated to each counterparty.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.5 CREDIT RISK (CONTINUED)

The Group considers its maximum exposure to credit risk is as follows:

	2021 £m	2020 £m
Trade and other receivables	174.4	202.7
Short-term investments	0.3	317.2
Cash and cash equivalents	1,518.2	598.3
Derivative financial instruments	7.3	4.9
	1700.2	1,123.1

7.1.6 ENERGY RISK

The Group operates risk management processes for the energy costs associated with the Group's activities. The Group regularly reviews its pricing exposure to diesel, electricity and gas consumption and determines strategies for forward purchasing and hedging of energy costs using flexible purchase contracts and by entering into over-the-counter diesel swap contracts.

Diesel cost exposures are hedged primarily using over-the-counter diesel swaps covering up to 100% of forecast direct exposures on a rolling basis. Diesel swaps used to hedge forecast diesel requirements are designated as fair value hedges with fair value movements recognised in profit or loss. Derivative financial instruments that were designated as fair value hedges during the year were effective. At the balance sheet date, the notional value of open diesel swaps of £1.3m (2020: £1.4m) had been entered into, to hedge future purchases of diesel.

7.1.7 SENSITIVITY ANALYSIS

The following analysis illustrates the sensitivity of the Group's financial instruments to changes in market variables, namely UK interest rates and the US Dollar and Euro to Sterling exchange rates. The level of sensitivities chosen, being 1% movement in Sterling interest rates and a 10% movement in Sterling when compared to the US Dollar and Euro, provide a reasonable basis to measure sensitivity whilst not being the Group's view of what is likely to happen in the future.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other provisions, which is addressed in notes 4.4 and 6.1.5.

The analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate borrowings and the proportion of financial instruments in foreign currencies are constant throughout the year, based on positions as at the year-end.

The following assumptions have been made in calculating the sensitivity analysis:

- The sensitivity of interest costs to movements in interest rates is calculated using floating rate debt and investment balances prevailing at the year-end;
- Changes in the carrying value of derivative financial instruments not in hedging relationships are assumed only to affect the income statement; and
- All derivative financial instruments designated as hedges are assumed to be fully effective.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

7.1.7 SENSITIVITY ANALYSIS (CONTINUED)

	2021		2020	
	Income statement	Equity	Income statement	Equity
	+/- £m	+/- £m	+/- £m	+/- £m
UK interest rates +/- 1% (2020: +/- 1%)	9.7	–	4.0	–
US Dollar exchange rate (GBP/USD) +/- 10% (2020: +/- 10%)	–	20.0	13.3	22.7
Euro exchange rate (GBP/EUR) +/- 10% (2020: +/- 10%)	–	17.1	6.9	15.7

The Group's strategy for managing foreign currency risk includes the use of options. The exchange rate sensitivities above therefore include the expected increase in the value of these options should underlying exchange rates move unfavourably. However, in the event that exchange rates move favourably, the Group could choose not to exercise these options to benefit from associated foreign exchange gains. In this scenario, the cost of the options reflected in the income statement would be limited to the value of the premiums paid to obtain them.

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

7.2.1 BASIS OF FAIR VALUE

Fair value estimation

The different levels per the IFRS 13 fair value hierarchy have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

During the year ended 30 January 2021, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

7.2 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES (CONTINUED)

7.2.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

Fair value of derivative financial instruments	2021				2020			
	Assets	Liabilities	Recognised in other comprehensive income	Recognised in income statement	Assets	Liabilities	Recognised in other comprehensive income	Recognised in income statement
	£m	£m	£m	£m	£m	£m	£m	£m
Non-current								
Currency derivatives – cash flow hedge	0.1	(2.2)	(2.1)	–	0.1	(3.0)	(2.9)	–
Other derivatives	–	(0.5)	–	(0.5)	–	(0.9)	–	(0.9)
	0.1	(2.7)	(2.1)	(0.5)	0.1	(3.9)	(2.9)	(0.9)
Current								
Currency derivatives – cash flow hedge	3.0	(19.7)	(16.7)	–	2.0	(18.2)	(16.2)	–
Other derivatives	4.2	(1.2)	–	3.0	2.8	(0.5)	–	2.3
	7.2	(20.9)	(16.7)	3.0	4.8	(18.7)	(16.2)	2.3

The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

The fair value of the derivative financial instruments held by the Group are classified as level 2 under the IFRS 13 fair value hierarchy, as all significant inputs to the valuation model used are based on observable market data and are not traded in an active market.

Specific valuation techniques used to value the financial instruments include quoted market prices. There have been no changes in valuation techniques from the prior year.

7.2.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES HELD AT AMORTISED COST

The following table compares the Group's liabilities held at amortised cost, where there is a difference between carrying value (CV) and fair value (FV):

	2021		2020	
	CV	FV	CV	FV
Financial liabilities				
Listed bonds	(591.2)	(641.5)	(590.6)	(645.7)

The fair values of the Group's listed bonds have been determined by reference to market price quotations and are classified as level 1 under the IFRS 13 fair value hierarchy.

For other financial assets and liabilities, there are no material differences between carrying value and fair value.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

7.3 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

7.3.1 ANALYSIS OF FINANCIAL ASSETS

Short-term trade and other receivables and derivative financial assets are excluded from this analysis, on the basis that they are primarily non-interest bearing and denominated in Sterling.

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling financial assets	1,410.0	108.2	1,518.2
Other financial assets	0.3	–	0.3
At 30 January 2021	1,410.3	108.2	1,518.5
Sterling financial assets	823.9	91.2	915.1
Other financial assets	0.4	–	0.4
At 25 January 2020	824.3	91.2	915.5

Floating rate assets are short-term deposits and investments at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash in shops and cash in transit, primarily made up of credit and debit card transactions not yet settled.

7.3.2 ANALYSIS OF FINANCIAL LIABILITIES

Short-term trade payables are excluded from this analysis on the basis that they are all non-interest bearing.

Currency analysis	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 30 January 2021	(2,529.4)	(374.1)	(2,903.5)
At 25 January 2020	(2,586.0)	(224.6)	(2,810.6)

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

8 OTHER NOTES

IN THIS SECTION

This section includes other financial information that is required by accounting standards.

8.1 SHARE CAPITAL

	2021		2020	
	Authorised £m	Issued and fully paid £m	Authorised £m	Issued and fully paid £m
Share capital				
Equity				
Deferred ordinary shares				
6,750,000 of £1 each	6.7	6.7	6.7	6.7

8.2 RELATED PARTY TRANSACTIONS

8.2.1 SUBSIDIARIES AND RELATED UNDERTAKINGS

All transactions between the Group and its subsidiaries and related undertakings are eliminated upon consolidation, and therefore do not need to be disclosed separately. A list of subsidiaries and related undertakings within the Group is included within note 34. Loans to joint ventures are disclosed in note 3.3.

8.2.2 ARRANGEMENTS WITH PENSION SCHEME TRUSTEE

The Group entered into an arrangement with the Pension Scheme Trustee on 30 January 2010 to address an element of the scheme deficit that existed at that time.

8.2.3 ARRANGEMENTS WITH JOHN LEWIS PARTNERSHIP TRUST LIMITED

John Lewis Partnership Trust Limited is a related party and holds the deferred ordinary shares in the Group on behalf of the Partners. John Lewis Partnership Trust Limited facilitates the approval and payment of the Partnership Bonus and BonusSave. The BonusSave scheme is operated by John Lewis Partnership Trust Limited which purchases SIP shares on behalf of Partners who have chosen to invest a portion of their bonus for this purpose. At 30 January 2021, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £33.1m (2020: £44.1m), £71.1m lower than the value of SIP shares issued of £104.2m (2020: £104.2m). The £71.1m (2020: £60.1m) is payable by John Lewis Partnership Trust Limited to John Lewis plc.

8.2.4 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 2.8.3

During the year the Group provided administrative support services to charities related to the Group. The estimated value of these support services is £86,000 (2020: £90,000). The Group also made donations totalling £0.4m (2020: £0.7m) to the John Lewis & Partners Foundation.

8.3 SUBSEQUENT EVENTS

Events that take place after the balance sheet date of 30 January 2021 and before the date the financial statements are signed are recorded in this note. In order to be disclosed, these events must be sufficiently material to warrant disclosure.

JOHN LEWIS PLC

Notes to the consolidated financial statements (continued)

8.3 SUBSEQUENT EVENTS (CONTINUED)

As part of our plan to reshape our store estate over the five years of the Partnership Plan, on 24 March 2021, John Lewis informed Partners that eight shops are proposed for closure and would not reopen alongside the rest of our estate. The stores impacted are Aberdeen, Ashford, Basingstoke, Chester, Peterborough, Sheffield, Tunbridge Wells, and York. As a result 1,465 Partners have been put at risk of redundancy. No accounting for potential redundancies or exit costs was recorded for the year ended 30 January 2021 in respect of these shop closures on the basis that both the Partnership Board decision and the announcement to Partners were after the year-end. For the leasehold properties, negotiations with landlords to exit the leases are ongoing and at this stage it is not possible to estimate any financial liability arising. Across the eight shops, only £8.7m in respect of PPE assets remains on the balance sheet after consideration of the 20/21 impairment provision.

Additionally on 24 March 2021, we confirmed that we have reached an agreement with XPO Logistics to operate our Waitrose distribution centre in Leyland, Lancashire, on our behalf. As a result, 436 Waitrose Partners will transfer to XPO under the Transfer of Undertakings Protection of Employment (TUPE) regulations.

JOHN LEWIS PLC

COMPANY BALANCE SHEET

as at 30 January 2021

Notes		2021 £m	2020 £m
Non-current assets			
12	Intangible assets	299.7	332.3
13	Property, plant and equipment	568.4	851.9
13	Right-of-use-assets	755.0	1,000.2
17	Trade and other receivables	5.9	4.2
27	Derivative financial instruments	0.1	0.1
14	Investments in subsidiaries	975.1	941.9
15	Investments in and loans to joint venture	3.4	2.5
25	Deferred tax asset	186.5	101.6
		2,794.1	3,234.7
Current assets			
16	Inventories	407.7	387.3
17	Trade and other receivables	199.2	220.1
	Current tax receivable	18.4	–
27	Derivative financial instruments	7.2	4.8
18	Short-term investments	0.3	306.4
19	Cash and cash equivalents	1,423.8	520.3
		2,056.6	1,438.9
	Total assets	4,850.7	4,673.6
Current liabilities			
21	Borrowings and overdrafts	(75.0)	–
22	Trade and other payables	(1,576.2)	(1,526.1)
23	Lease liabilities	(45.6)	(27.7)
	Current tax payable	–	(10.2)
24	Provisions	(179.4)	(98.4)
27	Derivative financial instruments	(20.9)	(18.7)
		(1,897.1)	(1,681.1)

JOHN LEWIS PLC

COMPANY BALANCE SHEET (CONTINUED)

as at 30 January 2021

Notes		2021 £m	2020 £m
Non-current liabilities			
21	Borrowings	(795.4)	(718.5)
22	Trade and other payables	(36.9)	(38.5)
23	Lease liabilities	(1,036.9)	(1,122.6)
24	Provisions	(159.3)	(141.5)
27	Derivative financial instruments	(2.7)	(3.9)
31	Retirement benefit obligations	(570.3)	(343.6)
		(2,601.5)	(2,368.6)
	Total liabilities	(4,498.6)	(4,049.7)
	Net assets	352.1	623.9
Equity			
32	Share capital	6.7	6.7
	Share premium	0.3	0.3
	Other reserves	(13.6)	(13.8)
	Retained earnings	358.7	630.7
	Total equity	352.1	623.9

The accompanying notes are an integral part of the financial statements.

The financial statements on pages 102 to 130 were approved by the Board of Directors on 21 April 2021 and signed on its behalf by Sharon White and Bérangeère Michel, Directors, John Lewis plc.




Sharon White and Bérangeère Michel
Directors, John Lewis plc
Registered number 00233462

JOHN LEWIS PLC
COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 January 2021

Notes	Share capital £m	Share premium £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	6.7	0.3	(0.6)	0.6	750.2	757.2
Adjustment on initial application of IFRS 16 ¹	–	–	–	–	1.8	1.8
	6.7	0.3	(0.6)	0.6	752.0	759.0
10 Profit for the year	–	–	–	–	33.4	33.4
Remeasurement of defined benefit pension scheme	–	–	–	–	(187.5)	(187.5)
Fair value loss on cash flow hedges	–	–	(8.7)	–	–	(8.7)
Tax on above items recognised in equity	–	–	3.2	–	32.8	36.0
Gain on foreign currency translations	–	–	–	0.2	–	0.2
Total comprehensive (expense)/income for the year	–	–	(5.5)	0.2	(121.3)	(126.6)
Hedging gains transferred to cost of inventory	–	–	(8.5)	–	–	(8.5)
	6.7	0.3	(14.6)	0.8	630.7	623.9
10 Loss for the year	–	–	–	–	(93.6)	(93.6)
Remeasurement of defined benefit pension scheme	–	–	–	–	(230.8)	(230.8)
Fair value loss on cash flow hedges	–	–	(5.6)	–	–	(5.6)
Tax on above items recognised in equity	–	–	0.3	–	52.4	52.7
Gain on foreign currency translations	–	–	–	0.1	–	0.1
Total comprehensive (expense)/income for the year	–	–	(5.3)	0.1	(272.0)	(277.2)
Hedging losses transferred to cost of inventory	–	–	5.4	–	–	5.4
	6.7	0.3	(14.5)	0.9	358.7	352.1

¹ The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

The accompanying notes are an integral part of the financial statements.

JOHN LEWIS PLC

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 January 2021

Notes		2021 ¹ £m	2020 £m
29	Cash generated from operations before Partnership Bonus	233.4	404.9
	Net taxation paid	(13.3)	(15.3)
	Pension deficit reduction payments	(7.5)	(12.8)
	Finance costs paid	(69.5)	(65.6)
	Net cash generated from operating activities before Partnership Bonus	143.1	311.2
	Partnership Bonus paid	(14.5)	(21.2)
	Net cash generated from operating activities after Partnership Bonus	128.6	290.0
	Cash flows from investing activities		
	Purchase of property, plant and equipment	(44.8)	(116.4)
	Purchase of intangible assets	(52.8)	(89.5)
	Proceeds from sale of property, plant and equipment and intangible assets	0.8	0.4
	Cash inflow from loans to group companies	69.0	193.4
	Dividend income received	403.0	6.0
	Finance income received	4.0	4.8
	Cash inflow/(outflow) from short-term investments	305.3	(40.7)
	Net cash generated from/(used in) investing activities	684.5	(42.0)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	(31.1)	(54.2)
	Finance costs paid in respect of financial instruments	-	(0.7)
	Payment of capital element of leases	(28.5)	(28.4)
	Cash inflow/(outflow) from borrowings	150.0	(275.0)
	Net cash generated from/(used in) financing activities	90.4	(358.3)
	Increase/(decrease) in net cash and cash equivalents	903.5	(110.3)
	Net cash and cash equivalents at beginning of the year	520.3	630.6
	Net cash and cash equivalents at end of the year	1,423.8	520.3
19	Net cash and cash equivalents comprise:		
	Cash at bank and in hand	95.2	86.6
	Short-term deposits	1,328.6	433.7
		1,423.8	520.3

¹ 53 week year

The accompanying notes are an integral part of the financial statements.

Notes to the company financial statements

9 ACCOUNTING POLICIES

9.1 BASIS OF PREPARATION

The separate financial statements of the Company are drawn up in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU). The Company's accounting policies are aligned with the Group's accounting policies as described in note 1 to the consolidated financial statements. Additional accounting policies are noted below.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 30 January 2021, the Directors are required to consider whether the Company can continue in operational existence for a period of at least 12 months from the approval of the financial statements.

The Directors have concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts with specific consideration to the Company in the context of the current Covid-19 pandemic in the UK, for the reasons set out in note 1.1.1. Consequently, the Directors have concluded that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

9.2 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company has a number of investments in subsidiary companies. Investments are valued at cost, less allowances for impairment. Impairment reviews are performed annually.

9.3 AMENDMENTS TO ACCOUNTING STANDARDS

The following standards, amendments and interpretations were applicable for the period beginning 26 January 2020, and were adopted by the Company for the year ended 30 January 2021 and have not had a significant impact on the Company's loss for the year, equity or disclosures:

- **Amendments to References to Conceptual Framework in IFRS Standards**
- **Amendments to IAS 1 and IAS 8: Definition of Material**
- **Amendments to IFRS 3: Business Combinations**
- **Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform**
- **Amendments to IFRS 16: COVID-19 Related Rent Concessions**

The following are new accounting standards and amendments to existing standards that have been published and are applicable for the Company's accounting periods beginning 31 January 2021 onwards, which the Company has not adopted early:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2**
(applicable for the period beginning 31 January 2021)

The adoption of these standards is not expected to have any impact on the Company's financial statements.

The Company is also currently assessing the impact of the following new and amended standards, which have been issued and are awaiting endorsement by the European Union:

JOHN LEWIS PLC

Notes to the company financial statements (continued)

9.3 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

- **Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use** (applicable for the period beginning 30 January 2022)
- **Amendments to IFRS 3: Business Combinations** (applicable for the period beginning 30 January 2022)
- **Amendments to IFRS 37: Onerous Contracts – Cost of Fulfilling a Contract** (applicable for the period beginning 30 January 2022)
- **Amendments to IAS 1: Classification of Liabilities as Current or Non-current** (applicable for the period beginning 29 January 2023)
- **IFRS 17 Insurance Contracts** (applicable for the period beginning 29 January 2023)
- **Amendments to IFRS 17 Insurance Contracts** (applicable for the period beginning 29 January 2023)

10 PROFIT AND LOSS OF THE COMPANY FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, John Lewis plc has not presented its own income statement or statement of comprehensive income/(expense). The result dealt with in the accounts of the Company amounted to £93.6m loss (2020: £33.4m profit). During the year an intra-group dividend of £400.0m was received from Waitrose Limited (2020: £nil was received from Waitrose Limited). Additionally, during the year an intra-group dividend of £3.0m was received from JLP Insurance Limited (2020: £6.0m was received from JLP Insurance Limited).

Details of the auditor's remuneration are provided in note 2.6 to the consolidated financial statements of the Group.

11 PARTNERS

11.1 PARTNER NUMBERS

The Company has no direct employees. The Partner numbers and benefits referred to below relate to Partners working at John Lewis and in central functions, who are employees of the Group. Full employee numbers are provided in note 2.8.1 to the consolidated financial statements of the Group.

During the year the average number of Partners employed by the Company was as follows:

	2021	2020
John Lewis	23,900	27,200
Other	2,700	3,300
	26,600	30,500

JOHN LEWIS PLC

Notes to the company financial statements (continued)

11.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2021 £m	2020 £m
Staff costs:		
Wages and salaries	(667.9)	(705.6)
Social security costs	(54.9)	(57.1)
Partnership Bonus	–	(12.7)
Employers' National Insurance on Partnership Bonus	–	(1.6)
Other pension expenses	(45.0)	(110.0)
Long leave cost	(4.9)	2.4
Total before Partner discounts	(772.7)	(884.6)
Partner discounts (excluded from revenue)	(44.8)	(47.0)
	(817.5)	(931.6)

Included above are the following amounts in respect of key management compensation:

	2021 £m	2020 £m
Salaries and short-term benefits	(5.5)	(7.9)
Post-employment benefits ¹	(0.7)	(1.6)
Termination benefits ²	(1.8)	(2.2)
	(8.0)	(11.7)

¹ Includes cash supplements in lieu of future pension accrual.

² Includes contractual payments and compensation for loss of office.

Key management includes the Directors of the Company, members of the Executive Team and other officers of the Group. Key management compensation includes salaries, Partnership Bonus, National Insurance costs, pension costs and the cost of other employment benefits, such as company cars, private medical insurance and termination payments where applicable. Costs of key management compensation are included within operating expenses and exceptional items as applicable.

Key management participate in the Group's long leave scheme, which is open to all Partners and provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. It is not practical to allocate the cost of accruing entitlement to this benefit to individuals, and therefore no allowance has been made for this benefit in the amounts disclosed.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

11.3 DIRECTORS' EMOLUMENTS

Directors' emoluments are disclosed in note 2.8.4 to the consolidated financial statements.

12 INTANGIBLE ASSETS

Intangible assets	Computer software			Total
	Purchased	Internally developed	Work in progress	
	£m	£m	£m	£m
Cost				
At 26 January 2019	152.8	498.3	54.3	705.4
Additions ¹	–	–	78.4	78.4
Transfers	15.0	52.6	(67.6)	–
Disposals and write-offs	(10.1)	(18.0)	(10.3)	(38.4)
At 25 January 2020	157.7	532.9	54.8	745.4
Additions ¹	–	–	62.0	62.0
Transfers	14.6	65.8	(80.4)	–
Disposals and write-offs	(35.0)	(31.3)	(3.5)	(69.8)
At 30 January 2021	137.3	567.4	32.9	737.6
Accumulated amortisation				
At 26 January 2019	(102.9)	(232.7)	–	(335.6)
Charge for the year	(25.6)	(78.1)	–	(103.7)
Disposals and write-offs	8.4	17.8	–	26.2
At 25 January 2020	(120.1)	(293.0)	–	(413.1)
Charge for the year	(23.4)	(66.8)	–	(90.2)
Disposals and write-offs	36.3	29.1	–	65.4
At 30 January 2021	(107.2)	(330.7)	–	(437.9)
Net book value at 26 January 2019	49.9	265.6	54.3	369.8
Net book value at 25 January 2020	37.6	239.9	54.8	332.3
Net book value at 30 January 2021	30.1	236.7	32.9	299.7

¹ For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on intangible assets of £0.8m (2020: £0.3m).

JOHN LEWIS PLC

Notes to the company financial statements (continued)

Intangible assets principally relate to customer and distribution projects with useful economic lives of up to ten years.

There are three individually significant assets within the total carrying amount of intangible assets as at 30 January 2021: two are customer projects (£141.3m, 2020: £134.0m) and one relates to a distribution project (£65.6m, 2020: £73.5m). These assets have useful economic lives ranging from three to ten years.

During the year to 30 January 2021, computer systems valued at £80.4m (2020: £67.6m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with useful economic lives ranging from three to ten years.

Amortisation of intangible assets is charged within operating expenses.

13 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Land and buildings	Fixtures, fittings and equipment	Assets in course of construction	Total
	£m	£m	£m	£m
Cost				
At 26 January 2019	955.7	977.1	21.8	1,954.6
Adjustment on initial application of IFRS 16 ³	(14.3)	–	–	(14.3)
At 27 January 2019	941.4	977.1	21.8	1,940.3
Additions ¹	–	–	113.3	113.3
Transfers	38.5	63.9	(102.4)	–
Disposals and write-offs	(2.4)	(22.6)	–	(25.0)
Transfers from assets held for sale ⁴	51.5	–	–	51.5
At 25 January 2020	1,029.0	1,018.4	32.7	2,080.1
Additions ¹	16.3	–	43.0	59.3
Transfers	2.4	24.2	(26.6)	–
Disposals and write-offs	(47.8)	(51.3)	(11.6)	(110.7)
At 30 January 2021	999.9	991.3	37.5	2,028.7

JOHN LEWIS PLC

Notes to the company financial statements (continued)

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Accumulated depreciation				
At 26 January 2019	(311.1)	(699.9)	–	(1,011.0)
Adjustment on initial application of IFRS 16 ³	3.2	–	–	3.2
At 27 January 2019	(307.9)	(699.9)	–	(1,007.8)
Charge for the year ²	(114.5)	(89.3)	–	(203.8)
Disposals and write-offs	1.5	24.0	–	25.5
Transfers to assets held for sale	(42.1)	–	–	(42.1)
At 25 January 2020	(463.0)	(765.2)	–	(1,228.2)
Charge for the year ²	(229.2)	(99.4)	–	(328.6)
Disposals and write-offs	45.1	51.4	–	96.5
At 30 January 2021	(647.1)	(813.2)	–	(1,460.3)
Net book value at 26 January 2019	644.6	277.2	21.8	943.6
Net book value at 25 January 2020	566.0	253.2	32.7	851.9
Net book value at 30 January 2021	352.8	178.1	37.5	568.4

¹ For the year ended 30 January 2021, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £1.6m (2020: £1.6m).

² For the year ended 30 January 2021, this includes an impairment charge of £201.5m to land and buildings (2020: £64.5m) and £40.2m to fixtures and fittings (2020: £13.6m).

³ The Company has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in place of lease assets. As a result, at 27 January 2019, land and building assets held under finance leases with a net book value £11.1m have been reallocated and recognised as right-of-use assets. The Company has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

⁴ For the year ended 25 January 2020, transfers from assets held for sale includes the reclassification of a property with a net book value of £9.4m back to property, plant and equipment due to changes in circumstances.

In accordance with IAS 36, the Company reviews its property, plant and equipment for impairment at least annually or whenever events or circumstances indicate that the value on the balance sheet may not be recoverable.

The impairment review compares the recoverable amount for each CGU to the carrying value on the balance sheet and includes right-of-use assets. The key assumptions used in the calculations are the discount rate, long-term growth rate, allocation of online sales, expected sales performance and costs, and market valuations considered in fair value less costs of disposal calculations.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings	Fixtures, fittings and equipment	Total
	£m	£m	£m
Right-of-use assets			
Cost			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019 ¹	1,049.8	–	1,049.8
Additions	20.2	–	20.2
Disposals and write-offs	(10.8)	–	(10.8)
At 25 January 2020	1,059.2	–	1,059.2
Additions	17.6	43.5	61.1
Disposals and write-offs	(105.2)	–	(105.2)
At 30 January 2021	971.6	43.5	1,015.1
Accumulated depreciation			
Recognition of right-of-use assets on initial application of IFRS 16 at 27 January 2019 ¹	–	–	–
Charge for the year ²	(59.7)	–	(59.7)
Disposals and write-offs	0.7	–	0.7
At 25 January 2020	(59.0)	–	(59.0)
Charge for the year ²	(211.1)	(2.2)	(213.3)
Disposals and write-offs	12.2	–	12.2
At 30 January 2021	(257.9)	(2.2)	(260.1)
Net book value on initial application of IFRS 16 at 27 January 2019 ¹	1,049.8	–	1,049.8
Net book value at January 2020	1,000.2	–	1,000.2
Net book value at January 2021	713.7	41.3	755.0

¹ The Company has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets for assets under lease contracts. As a result the Company recognised £1,049.8m of right-of-use assets from those lease contracts as at 27 January 2019. The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

² For the year ended 30 January 2021, this includes an impairment charge of £169.3m (2020: £14.6m).

JOHN LEWIS PLC

Notes to the company financial statements (continued)

14 INVESTMENTS IN SUBSIDIARIES

The Company has the following investments at 30 January 2021.

	Shares in Group companies	Loan to Group companies	Total
	£m	£m	£m
At 26 January 2019	53.6	1,081.7	1,135.3
Movements	2.0	(195.4)	(193.4)
At 25 January 2020	55.6	886.3	941.9
Movements	2.6	30.6	33.2
At 30 January 2021	58.2	916.9	975.1

The intercompany loan from John Lewis Partnership plc to the Company is non-interest bearing with no specific repayment terms.

A list of subsidiary undertakings is provided in note 34.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

15 INVESTMENTS IN AND LOANS TO JOINT VENTURE

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures.

Interests in joint ventures are accounted for using the equity method after initially being recognised at cost in the consolidated balance sheet.

The Company financial statements include the Company's share of the profit or loss and other comprehensive income of the equity accounted investees, from the date that joint control commences until the date that joint control ceases.

John Lewis plc and Clipper Logistics plc are both investors in Clicklink Logistics Limited. Each party owns 50.0% of the equity of Clicklink Logistics Limited and decisions regarding Clicklink Logistics Limited require the unanimous consent of both parties.

Joint venture	Investment £m	Loan £m	Total £m
Cost			
At 26 January 2019	2.1	2.0	4.1
Additions	–	–	–
At 25 January 2020	2.1	2.0	4.1
Additions	–	–	–
At 30 January 2021	2.1	2.0	4.1
Share of profit/(loss)			
At 26 January 2019	(1.4)	–	(1.4)
Share of loss	(0.2)	–	(0.2)
At 25 January 2020	(1.6)	–	(1.6)
Share of profit	0.9	–	0.9
At 30 January 2021	(0.7)	–	(0.7)
At 26 January 2019	0.7	2.0	2.7
At 25 January 2020	0.5	2.0	2.5
At 30 January 2021	1.4	2.0	3.4

JOHN LEWIS PLC

Notes to the company financial statements (continued)

16 INVENTORIES

Inventory	2021 £m	2020 £m
Finished goods and goods for resale	407.7	387.3
	407.7	387.3

The cost of inventory recognised as an expense by the Company in the year was £2,457.3m (2020: £2,279.0m). Provisions against inventories of £31.6m were charged (2020: £20.6m charged) to cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £19.0m (2020: £16.9m). This relates to the Group's expected returns inventory based on previous rates of return.

17 TRADE AND OTHER RECEIVABLES

Trade and other receivables	2021 £m	2020 £m
Current:		
Trade receivables	31.8	53.6
Other receivables ¹	98.1	88.5
Prepayments	47.2	57.0
Accrued income	22.1	21.0
	199.2	220.1
Non-current:		
Other receivables	3.0	3.3
Prepayments	2.9	0.9
	5.9	4.2

¹ The Company operates the BonusSave scheme (the scheme), a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Company (see note 8.2.3). Included within other receivables is a balance of £71.1m (2020: £60.1m) due from John Lewis Partnership Trust Limited in relation to SIP shares in issue but not allocated to Partners.

Trade receivables are non-interest bearing and generally on credit terms of less than 90 days. Concentrations of credit risk are considered to be very limited. The carrying amount of trade and other receivables approximates to fair value and is denominated in Sterling. Within trade receivables is supplier income which has been invoiced where there is no legal right to offset. Included in trade payables are invoices for supplier income where there is a right to offset and the Company intends to offset against amounts owed to suppliers (see note 22).

JOHN LEWIS PLC

Notes to the company financial statements (continued)

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

Within accrued income, there is £11.2m (2020: £9.7m) in relation to supplier income which has not yet been invoiced.

The Company recognises loss allowances for expected credit losses within operating expenses in the income statement. As at 30 January 2021, trade and other receivables of £1.3m (2020: £1.3m) were partially or fully impaired. As at 30 January 2021, trade and other receivables of £29.4m (2020: £27.5m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2021 £m	2020 £m
Up to 3 months past due	28.5	26.0
3 to 12 months past due	0.8	0.8
Over 12 months past due	0.1	0.7
	29.4	27.5

18 SHORT-TERM INVESTMENTS

	2021 £m	2020 £m
Short-term investments	0.3	306.4

For the year ended 30 January 2021, the effective interest rate on short-term investments was 0.7% (2020: 1.1%) and these investments had an average maturity of 75 days (2020: 62 days).

The decrease in short-term investments year on year reflects a temporary shift from short-term investments to cash and cash equivalents. This shift provided quicker access to cash, helping to mitigate uncertainty and possible trading volatility caused by Covid-19.

19 CASH AND CASH EQUIVALENTS

	2021 £m	2020 £m
Cash and cash equivalents	95.2	86.6
Short-term deposits	1,328.6	433.7
	1,423.8	520.3

For the year ended 30 January 2021, the effective interest rate on short-term deposits was 0.2% (2020: 0.7%) and these deposits had an average maturity of two days (2020: three days).

JOHN LEWIS PLC

Notes to the company financial statements (continued)

20 ANALYSIS OF FINANCIAL ASSETS

Short-term trade and other receivables and derivative financial assets are excluded from this analysis, on the basis that they are primarily non-interest bearing and denominated in Sterling.

Currency analysis	Floating rate £m	Non-interest bearing £m	Total £m
Sterling financial assets	1,328.6	95.2	1,423.8
Other financial assets	0.3	–	0.3
At 30 January 2021	1,328.9	95.2	1,424.1
Sterling financial assets	739.7	86.6	826.3
Other financial assets	0.4	–	0.4
At 25 January 2020	740.1	86.6	826.7

Floating rate assets are short-term deposits and investments at market rates or the base rate of the relevant currency. Non-interest bearing balances include cash in shops and cash in transit, primarily made up of credit and debit card transactions not yet settled.

21 BORROWINGS AND OVERDRAFTS

	2021 £m	2020 £m
Current:		
Bank loans	(75.0)	–
	(75.0)	–
Non-current:		
Bank loans ¹	(200.0)	(125.1)
6 ¹ / ₈ % bonds, 2025	(300.0)	(300.0)
4 ¹ / ₄ % bonds, 2034	(300.0)	(300.0)
Unamortised bond transaction costs	8.8	9.4
Fair value adjustment for hedged element on bonds	(4.2)	(2.8)
	(795.4)	(718.5)

¹ Additional bank loans were agreed in 20/21.

All borrowings are unsecured, denominated in sterling, and are repayable on the dates shown, at par.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

22 TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Current:		
Trade payables	(477.9)	(424.8)
Amounts owed to parent company ¹	(111.7)	(111.6)
Amounts owed to Group companies	(554.2)	(510.9)
Other payables	(128.5)	(129.7)
Other taxation and social security	(100.1)	(133.7)
Accruals	(106.9)	(108.4)
Deferred income	(96.9)	(78.0)
Partnership Bonus	–	(29.0)
	(1,576.2)	(1,526.1)
Non-current:		
Deferred income	(36.9)	(38.5)
	(36.9)	(38.5)

¹ The Company operates the BonusSave scheme (the scheme), a Share Incentive Plan (SIP) which allows Partners to elect to invest part of their Partnership Bonus back into the Company (see note 8.2.3). Included within amounts owed to parent company is a balance of £104.2m in relation to the SIP shares in issue, of which £71.1m relates to SIP shares in issue but not allocated to Partners. There is an offsetting equivalent balance in relation to these shares included within other receivables. The remaining £33.1m relates to SIP shares held directly by Partners.

The carrying amount of trade and other payables approximates to fair value.

Included in deferred income are contract liabilities for free warranties of £35.6m (2020: £42.4m) and payments from customers for goods and services sold but not delivered of £71.2m (2020: £49.6m). During the year an amount of £25.9m (2020: £26.8m) was released to the income statement in relation to free warranties matching to the period over which the free warranties are utilised. The deferral for the year was £19.0m (2020: £19.2m). All of the contract liabilities for goods and services sold but not delivered at 25 January 2020 have been recognised as revenue in the year ended 30 January 2021.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

23 LEASE LIABILITIES

The following amounts are included in the Company's financial statements in respect of its leases.

	2021	2020
	£m	£m
Depreciation charge for right-of-use assets (excluding impairment) (see note 13)	(44.0)	(44.4)
Interest expense on lease liabilities	(59.0)	(60.8)
Expense relating to short-term leases	(0.8)	(0.7)
Expense relating to leases of low value assets that are not shown above as short-term leases	(1.2)	(1.2)
Expense relating to variable lease payments not included in lease liabilities	(0.7)	(4.0)
Total cash outflow for leases comprising interest and capital payments	(89.4)	(89.1)
Additions to right-of-use assets (see note 13)	61.1	20.2
Gains/(losses) arising from sale and leaseback transactions	–	–
Carrying amount of right-of-use assets (see note 13)	755.0	1,000.2
Income from sub-leasing right-of-use assets	0.3	0.4

JOHN LEWIS PLC

Notes to the company financial statements (continued)

24 PROVISIONS

	Long leave £m	Customer refunds £m	Insurance claims £m	Reorganisation £m	Other £m	Total £m
At 25 January 2020	(153.5)	(28.8)	(16.5)	(21.5)	(19.6)	(239.9)
Charged to income statement	(15.6)	(37.2)	(8.0)	(121.1)	(36.5)	(218.4)
Released to income statement	11.3	–	–	10.8	8.9	31.0
Utilised	7.1	28.8	6.7	45.8	0.2	88.6
At 30 January 2021	(150.7)	(37.2)	(17.8)	(86.0)	(47.0)	(338.7)
Of which:						
Current	(36.5)	(37.2)	(5.6)	(86.0)	(14.1)	(179.4)
Non-current	(114.2)	–	(12.2)	–	(32.9)	(159.3)

The Company has a long leave scheme, open to all Partners, which provides up to six months' paid leave after 25 years' service. There is no proportional entitlement for shorter periods of service. The provision for the liabilities under the scheme is assessed on an actuarial basis, reflecting Partners' expected service profiles, salary growth, National Insurance and overtime earnings assumptions. The real discount rate applied differs from the real discount rate used for the Group's retirement benefits (note 6.1) as it reflects a rate appropriate to the shorter duration of the long leave liability so as to accrue the cost over Partners' service periods. Illustrated in note 4.4 is the sensitivity of the long leave provision to changes in key assumptions.

Provisions for customer refunds reflect the Company's expected liability for returns of goods sold based on experience of rates of return.

Provisions for insurance claims are in respect of the Partnership's employer's, public and vehicle third party liability insurances.

Provisions for reorganisation reflect restructuring and redundancy costs, principally in relation to head office reviews and shop closures.

Other provisions primarily include property related costs.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

25 DEFERRED TAX

25.1 DEFERRED TAX

Deferred tax is calculated on temporary differences using a rate of 19.0%. The movement on the deferred tax account is shown below:

	2021 £m	2020 £m
Opening asset	101.6	73.6
Adjustment on initial application of IFRS 16 ¹	–	(0.4)
Adjusted opening asset	101.6	73.2
(Charged)/credited to income statement	32.8	(5.1)
Credited/(charged) to other comprehensive income/(expense)	52.1	33.5
Closing asset	186.5	101.6

¹ The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

The movements in deferred tax assets and liabilities during the year are shown below.

	Accelerated tax depreciation £m	Revaluation of land and buildings £m	Rollover gains £m	Other £m	Total £m
At 26 January 2019	(31.8)	(2.8)	(5.6)	–	(40.2)
Adjustment on initial application of IFRS 16 ¹	–	–	–	(0.4)	(0.4)
Adjusted opening liability	(31.8)	(2.8)	(5.6)	(0.4)	(40.6)
Credited/(charged) to income statement	10.0	(1.7)	–	–	8.3
At 25 January 2020	(21.8)	(4.5)	(5.6)	(0.4)	(32.3)
Opening liability	(21.8)	(4.5)	(5.6)	(0.4)	(32.3)
Credited/(charged) to income statement	18.5	2.4	(0.6)	–	20.3
At 30 January 2021	(3.3)	(2.1)	(6.2)	(0.4)	(12.0)

¹ The Company has initially applied IFRS 16 at 27 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application which was 27 January 2019.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

25.1 DEFERRED TAX (CONTINUED)

	Tax and capital losses	Capital gains tax on land and buildings	Pensions and provisions	Other	Total
Deferred tax assets	£m	£m	£m	£m	£m
At 26 January 2019	–	11.2	103.5	(0.9)	113.8
(Charged)/credited to income statement	–	(2.3)	(15.1)	4.0	(13.4)
Credited to other comprehensive income/(expense)	–	–	30.3	3.2	33.5
At 25 January 2020	–	8.9	118.7	6.3	133.9
(Charged)/credited to income statement	23.7	8.2	(19.2)	(0.2)	12.5
Credited to other comprehensive income/(expense)	–	–	51.8	0.3	52.1
At 30 January 2021	23.7	17.1	151.3	6.4	198.5

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future profits is probable.

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the financial year ended 30 January 2010, following the contribution of the limited partnership interest in JLP Scottish Limited Partnership to the pension scheme (see note 6.1 to the consolidated financial statements).

The deferred tax assets and liabilities are recoverable after more than one year.

25.2 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

The Government announced in the Spring Budget on 3 March 2021 that the rate of Corporation Tax will increase from April 2023 to 25% for companies with profits over £250,000. As at 30 January 2021 the legislation had not yet been substantively enacted and therefore the tax rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods after 1 April 2023 was 19%. The impact of the change is therefore not recognised in these financial statements but would have increased the net deferred tax asset by approximately £54.1m if it had been enacted before 30 January 2021. The impact will be reflected in the financial statements for the year ending 29 January 2022.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

26 MANAGEMENT OF FINANCIAL RISKS

26.1 CAPITAL AND LONG-TERM FUNDING RISK

The approach to capital and long-term funding risks has been discussed in note 7.1.1 to the consolidated financial statements.

26.2 LIQUIDITY RISK

The approach to liquidity risks has been discussed in note 7.1.2 to the consolidated financial statements.

The following analysis shows the contractual undiscounted cash flows payable under financial liabilities and derivative financial liabilities at the balance sheet date:

	Carrying amount	Total contractual cash flows	Due within 1 year	Due between 1 and 2 years	Due 2 years and beyond
	£m	£m	£m	£m	£m
Non-derivative financial liabilities					
Borrowings and overdrafts	(870.4)	(875.0)	(75.0)	(150.0)	(650.0)
Interest payments on borrowings	-	(262.0)	(37.0)	(35.0)	(190.0)
Lease liabilities	(1,082.5)	(1,238.1)	(71.7)	(72.9)	(1,093.5)
Trade and other payables	(1,267.5)	(1,267.5)	(1,267.5)	-	-
Derivative financial liabilities					
Derivative contracts – receipts	-	448.4	356.0	80.2	12.2
Derivative contracts – payments	-	(464.1)	(372.4)	(81.7)	(10.0)
At 30 January 2021	(3,220.4)	(3,658.3)	(1,467.6)	(259.4)	(1,931.3)

JOHN LEWIS PLC

Notes to the company financial statements (continued)

26.2 LIQUIDITY RISK (CONTINUED)

	Carrying amount	Total contractual cash flows	Due within 1 year	Due between 1 and 2 years	Due 2 years and beyond
	£m	£m	£m	£m	£m
Non-derivative financial liabilities					
Borrowings and overdrafts	(718.5)	(725.1)	–	(75.0)	(650.1)
Interest payments on borrowings	–	(289.6)	(34.1)	(33.6)	(221.9)
Lease liabilities	(1,150.3)	(1,608.3)	(66.2)	(66.6)	(1,475.5)
Trade and other payables	(1,202.8)	(1,202.8)	(1,202.8)	–	–
Derivative financial liabilities					
Derivative contracts – receipts	–	475.4	367.1	89.9	18.4
Derivative contracts – payments	–	(493.5)	(383.0)	(93.2)	(17.3)
At 25 January 2020	(3,071.6)	(3,843.9)	(1,319.0)	(178.5)	(2,346.4)

For the purposes of this note, the foreign currency element of forward foreign currency contracts is translated at spot rates prevailing at the year-end.

26.3 INTEREST RATE RISK

The approach to interest rate risks has been discussed in note 7.1.3 to the consolidated financial statements.

26.4 FOREIGN CURRENCY RISK

The approach to foreign currency risks has been discussed in note 7.1.4 to the consolidated financial statements.

26.5 CREDIT RISK

The Company has no significant exposure to an individual customer's credit risk due to transactions being principally of a high volume, low value and short maturity. Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. These risks are managed by restricting such transactions to an approved list of counterparties, who have an investment grade credit rating by at least two of the three primary rating agencies. Appropriate credit limits are designated to each counterparty.

The Company considers its maximum exposure to credit risk is as follows:

	2021 £m	2020 £m
Trade and other receivables	132.9	145.4
Short-term investments	0.3	306.4
Cash and cash equivalents	1,423.8	520.3
Derivative financial instruments	7.3	4.9
	1,564.3	977.0

JOHN LEWIS PLC

Notes to the company financial statements (continued)

26 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

26.6 ENERGY RISK

The approach to energy risks has been discussed in note 7.1.6 to the consolidated financial statements.

26.7 SENSITIVITY ANALYSIS

A sensitivity analysis has been performed in note 7.1.7 to the consolidated financial statements.

27 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

27.1 BASIS OF FAIR VALUE

Fair value estimation

The different levels per the IFRS 13 fair value hierarchy have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

During the year ended 30 January 2021, there have been no transfers between any levels of the IFRS 13 fair value hierarchy and there were no reclassifications of financial assets as a result of a change in the purpose or use of those assets.

27.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

Fair value of derivative financial instruments	2021				2020			
	Assets £m	Liabilities £m	Recognised in other comprehensive income £m	Recognised in income statement £m	Assets £m	Liabilities £m	Recognised in other comprehensive income £m	Recognised in income statement £m
Non-current								
Currency derivatives – cash flow hedge	0.1	(2.2)	(2.1)	–	0.1	(3.0)	(2.9)	–
Other derivatives	–	(0.5)	–	(0.5)	–	(0.9)	–	(0.9)
	0.1	(2.7)	(2.1)	(0.5)	0.1	(3.9)	(2.9)	(0.9)
Current								
Currency derivatives – cash flow hedge	3.0	(19.7)	(16.7)	–	2.0	(18.2)	(16.2)	–
Other derivatives	4.2	(1.2)	–	3.0	2.8	(0.5)	–	2.3
	7.2	(20.9)	(16.7)	3.0	4.8	(18.7)	(16.2)	2.3

JOHN LEWIS PLC

Notes to the company financial statements (continued)

27 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES (CONTINUED)

27.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange and interest rates prevailing at the balance sheet date.

The fair value of the derivative financial instruments held by the Company are classified as level 2 under the IFRS 13 fair value hierarchy, as all significant inputs to the valuation model used are based on observable market data and are not traded in an active market.

Specific valuation techniques used to value the financial instruments include quoted market prices. There have been no changes in valuation techniques from the prior year.

27.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES HELD AT AMORTISED COST

The following table compares the Company's liabilities held at amortised cost, where there is a difference between carrying value (CV) and fair value (FV):

	2021 £m		2020 £m	
	CV	FV	CV	FV
Financial liabilities				
Listed bonds	(591.2)	(641.5)	(590.6)	(645.7)

The fair values of the Company's listed bonds have been determined by reference to market price quotations and are classified as level 1 under the IFRS 13 fair value hierarchy.

For other financial assets and liabilities, there are no material differences between carrying value and fair value.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

28 ANALYSIS OF FINANCIAL LIABILITIES

Short-term trade payables are excluded from this analysis on the basis that they are all non-interest bearing.

	Fixed rate £m	Floating rate £m	Total £m
All Sterling			
At 30 January 2021	(1,649.5)	(299.2)	(1,948.7)
At 25 January 2020	(1,641.4)	(224.6)	(1,866.0)

29 RECONCILIATION OF (LOSS)/PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

	2021 £m	2020 £m
(Loss)/profit before tax	(191.4)	63.2
Dividend income received	(403.0)	(6.0)
Amortisation and write-offs of intangible assets	93.7	114.0
Depreciation ¹	541.9	263.5
Share of profit of joint venture (net of tax)	(0.9)	0.2
Net finance costs	112.2	118.0
Partnership Bonus	-	14.3
Fair value (gains)/ losses on derivative financial instruments	(0.3)	0.3
(Profit)/ loss on disposal of property, plant and equipment and intangible assets	(4.6)	1.1
Decrease/(increase) in inventories	(19.5)	42.1
(Increase)/decrease in receivables	2.9	(65.5)
Increase/(decrease) in payables	32.1	100.2
(Decrease)/increase in retirement benefit obligations	(4.4)	(234.6)
Increase/(decrease) in provisions	74.7	(5.9)
Cash generated from operations before Partnership Bonus	233.4	404.9

¹ Includes net impairment charges. See note 13.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

30 COMMITMENTS AND CONTINGENCIES

At 30 January 2021 contracts had been entered into for future capital expenditure of £13.2m (2020: £9.7m) of which £12.1m (2020: £8.1m) relates to property, plant and equipment and £1.1m (2020: £1.6m) relates to intangible assets.

31 RETIREMENT BENEFIT OBLIGATIONS

As disclosed in note 6.1 to the consolidated financial statements, the investment held by the pension scheme in JLP Scottish Partnership is £76.6m (2020: £73.8m). This represents a plan asset for the Company accounts which is offset against the defined benefit obligation of £646.9m (2020: £417.4m). The retirement benefit obligation of the Company as at 30 January 2021 was £570.3m (2020: £343.6m). Note 6.1 of the consolidated financial statements details the financial assumptions used.

32 SHARE CAPITAL

	2021		2020	
	Authorised	Issued and fully paid	Authorised	Issued and fully paid
Share capital	£m	£m	£m	£m
Equity				
Deferred ordinary shares				
6,750,000 of £1 each	6.7	6.7	6.7	6.7

33 RELATED PARTY TRANSACTIONS

33.1 LOAN FROM JOHN LEWIS PARTNERSHIP PLC

The loan from John Lewis Partnership plc has been disclosed in note 22. The loan is non-interest bearing with no specific repayment terms.

33.2 TRANSACTIONS WITH OTHER GROUP COMPANIES

During the year John Lewis plc entered into transactions with other Group companies in respect of supply of goods for resale and associated services totalling £6.3m (2020: £12.1m), purchase of goods for resale totalling £37.7m (2020: £53.2m), the supply of administrative and other shared services totalling £70.7m (2020: £64.0m) and the hire of vehicles totalling £(19.7)m (2020: £30.7m).

In addition, John Lewis plc settled other transactions on behalf of Group companies for administrative convenience, such as payroll and supplier settlement. All such transactions were charged at cost to the relevant Group company. It is not practical to quantify these recharges.

A list of subsidiaries and related undertakings within the Group is included within note 34. Loans to joint ventures are disclosed in note 15.

JOHN LEWIS PLC

Notes to the company financial statements (continued)

33 RELATED PARTY TRANSACTIONS (CONTINUED)

33.3 OTHER TRANSACTIONS

Key management compensation has been disclosed in note 11.2.

During the year the Company provided administrative support services to charities related to the Company. The estimated value of these support services is £86,000 (2020: £90,000). The Company also made donations totalling £0.4m (2020: £0.7m) to the John Lewis & Partners Foundation.

34 SUBSIDIARIES AND RELATED UNDERTAKINGS

The Company has a number of subsidiaries and related undertakings which contribute to the overall profitability of the Group. In accordance with section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office addresses and the percentages of share class owned as at 30 January 2021 are disclosed below.

Subsidiaries and related undertakings as at 30 January 2021 were as follows:

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
Admiral Park Retail Management Limited	Property holding company	Guernsey ¹	Ordinary	54%
Buy.Com Limited	Dormant	England & Wales ²	Ordinary	100%
Carlisle Place Ventures Limited	Home services	England & Wales ²	Ordinary	100%
Clicklink Logistics Limited	Joint venture	England & Wales ³	Ordinary	50%
Herbert Parkinson Limited	Manufacturing and making up	England & Wales ²	Ordinary	100%
JLP Insurance Limited	Insurance	Guernsey ⁴	Ordinary	100%
JLP Scotland Limited	Non-trading	Scotland ⁵	Ordinary	100%
JLP Scottish Limited Partnership ⁽⁶⁾	Investment holding undertaking	Scotland ⁶	Partnership interest	100%
JLP Scottish Partnership ⁽⁶⁾	Investment holding undertaking	Scotland ⁶	Partnership interest	100%
John Lewis Car Finance Limited	Car finance	England & Wales ²	Ordinary	100%
John Lewis Hong Kong Limited	Sourcing company	Hong Kong ⁷	Ordinary	100%
John Lewis India Private Limited	Sourcing company	India ⁸	Ordinary	100%
John Lewis International Limited	International retail	England & Wales ²	Ordinary	100%
John Lewis Partnership Pensions Trust	Non-trading	England & Wales ²	Ordinary	100%

JOHN LEWIS PLC

Notes to the company financial statements (continued)

34 SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

Name	Principal activity	Country of incorporation	Class of share	Percentage shareholdings
John Lewis Properties plc	Property holding company	England & Wales ²	Ordinary	100%
John Lewis PT Holdings Limited	Holding company	England & Wales ²	Ordinary	100%
Jonelle Jewellery Limited	Dormant	England & Wales ²	Ordinary	100%
Jonelle Limited	Dormant	England & Wales ²	Ordinary	100%
Park One Management Limited	Provision of management services	England & Wales ⁹	Ordinary	37%
Peter Jones Limited	Dormant	England & Wales ²	Ordinary	100%
The Odney Estate Limited	Dormant	England & Wales ²	Ordinary	100%
Waitrose (Jersey) Limited	Food retailing	Jersey ¹⁰	Ordinary	100%
Waitrose (Guernsey) Limited	Food retailing	Guernsey ¹	Ordinary	100%
Waitrose Limited	Food retailing	England & Wales ²	Ordinary	100%

1. The address of the registered office is PO Box 119 Martello Court, Admiral Park, St Peter Port, Guernsey, GY1 3HB.
2. The address of the registered office is 171 Victoria Street, London SW1E 5NN.
3. The address of the registered office is Clipper Logistics Group, Gelderd Road, Leeds, West Yorkshire, LS12 6LT.
4. The address of the registered office is 155 Mill Court La Charroterie, St Peter Port, Guernsey, GU1 4ET.
5. The address of the registered office is John Lewis Aberdeen, George Street, Aberdeen, AB25 1BW.
6. The address of the registered office is John Lewis, 60 Leith Street, Edinburgh, EH1 3SP.
7. The address of the registered office is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong.
8. The address of the registered office is 3rd Floor, Tower B, Signature Towers, South City, Sector - 30, Gurgaon, Haryana, India, 122001.
9. The address of the registered office is Number 22 Mount Ephraim, Tunbridge Wells, Kent, TN4 8AS.
10. The address of the registered office is 44 Esplanade, St Helier, Jersey, JE4 9WG.

- (i) John Lewis Partnership Pensions Trust and JLP Scotland Limited are the Limited Partners. John Lewis plc is the General Partner.
- (ii) JLP Scottish Limited Partnership and John Lewis Properties plc are the General Partners.

The whole of the ordinary share capital of the subsidiary undertakings of John Lewis plc is held within the Partnership. Except as noted above, all of these subsidiary undertakings operate wholly or mainly in the United Kingdom.

Ultimate control rests with John Lewis Partnership Trust Limited, which holds the deferred ordinary shares issued by John Lewis Partnership plc in Trust for the benefit of employees. Both of these companies are registered in England and Wales. Copies of these accounts may be obtained from the Company Secretary, John Lewis Partnership plc, 171 Victoria Street, London, SW1E 5NN.

The Company is a General Partner of JLP Scottish Limited Partnership, a qualifying limited partnership registered at John Lewis, 60 Leith Street, Edinburgh, EH1 3SP. This is consolidated within John Lewis plc.

The Company has taken advantage of the exemption conferred by regulation 7 of the Partnerships (Accounts) Regulations 2008 and has not appended the accounts of JLP Scottish Partnership and JLP Scottish Limited Partnership. Separate accounts for these partnerships are not required to be filed with the Registrar of Companies.

JOHN LEWIS PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework. In addition the Group financial statements are required under the UK Disclosure and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU);
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



Sharon White and Bérangère Michel
Directors, John Lewis plc

21 April 2021

I. Our opinion is unmodified

We have audited the financial statements of John Lewis plc (“the Company”) for the year ended 30 January 2021 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Company balance sheet, Company statement of changes in equity, Company statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group’s and of the parent Company’s affairs as at 30 January 2021 and of the Group’s loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (“IFRSs as adopted by the EU”);
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the shareholders on 8 June 2016. The period of total uninterrupted engagement is for the five financial years ended 30 January 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Going concern</p> <p><i>Refer to page 39 to 40 (financial disclosures) and pages 80 and 81 of the Partnership's Annual Report and Accounts (Audit and Risk Committee report).</i></p>	<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Partnership and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Partnership's and Company's business model and how those risks might affect the Partnership's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Partnership's and Company's available financial resources over this period were:</p> <ul style="list-style-type: none"> - The impact of Covid-19 on sales, profitability and cash flow based on a weaker UK economy and consumer confidence, in particular due to John Lewis branches being closed for an extended period of time, potential disruption to John Lewis' online business, the potential for reduced store and online trading for the remainder of the financial year, and the potential disruption to the grocery supply chain. 	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Partnership's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures also included:</p> <ul style="list-style-type: none"> - Test of details: Evaluated the mathematical accuracy of the models the Directors used in its assessment; - Test of details: Evaluated whether the assumptions were realistic, achievable and consistent with the external environment and other matters identified in the audit; - Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Partnership's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; - Test of details: Evaluated management's assessment of the entity's compliance with debt covenants;



	The risk	Our response
<p>Going concern (continued)</p>	<p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<ul style="list-style-type: none"> - Historical comparisons: Considered the historical accuracy of the Partnership's cash flow forecasts and growth rates by assessing the accuracy of previous forecasts made by the Partnership against actual performance; - Evaluating directors' intent: Evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which include reducing capital and investment expenditure and reduced marketing spend, taking into account the extent to which the Directors can control the timing and outcome of these. - Assessing transparency: Assessing the reasonableness of the going concern disclosure. <p>Our results</p> <p>We found the going concern disclosure without any material uncertainty to be acceptable (2020: acceptable).</p>

	The risk	Our response
<p>Impairment of property, plant and equipment and right-of-use assets</p> <p>£791.4 million of the total PPE and ROUA of £4,523.7 million (2020: £1,151.3 million of the total PPE and ROUA of £5,390.3 million)</p> <p><i>Page 65 (accounting policy) and page 67 to 70 (financial disclosures)</i></p>	<p>Forecast-based assessment</p> <p>The Partnership has significant property, plant and equipment (PPE) and right-of-use assets (ROUAs) held on the consolidated balance sheet. In the year an impairment charge of £525.7 million was recognised, predominantly in relation to John Lewis PPE and ROUAs.</p> <p>There is a risk that the carrying value of stores and related PPE and ROUAs may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' (VIU) or 'fair value less costs of disposal'.</p> <p>The recoverable amount was assessed for £791.4 million of the total PPE and ROUA net book value and identified as supported by VIU calculations. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows and could be manipulated to yield a specific outcome. The key assumptions used in the value-in-use calculations for estimating the recoverable amount are expected sales and costs in the short-term cash-flow forecasts, the long-term growth rate, the discount rate and specifically for John Lewis, the online allocation.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Re-performance: We re-performed the calculations the Directors performed for determining the VIU of each cash generating unit and compared data used in the model against source information, where applicable. - Our sector experience: We evaluated assumptions used, in particular those relating to forecast revenue growth and profit margins for each Waitrose and John Lewis branch. We also challenged the Directors as to the achievability of their forecasts and business plans, taking into account the historical accuracy of previous forecasts. - Benchmarking assumptions: We compared the director's assumptions to externally derived data in relation to key inputs such as projected economic growth, cost inflation and discount rates. - Sensitivity analysis: We performed sensitivity analysis to stress-test the assumptions noted above. - Assessing disclosures: We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE and ROUAs.

	The risk	Our response
<p>Impairment of property, plant and equipment and right-of-use assets (continued)</p>	<p>The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the VIU had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 3.2) disclose the sensitivities estimated by the Partnership.</p>	<p>Our results</p> <p>We found the resulting estimate of recoverable amount of PPE and ROUAs to be acceptable (2020: acceptable).</p>
<p>Net defined benefit obligation</p> <p>£646.9 million (2020: £417.4 million)</p> <p><i>Refer to page 83 (accounting policy) and pages 84 to 92 (financial disclosures)</i></p>	<p>Subjective valuation</p> <p>A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation and mortality rates) can have a material impact on the gross liability.</p> <p>In addition, within the Partnership's pension asset portfolio are a number of assets whose valuation require significant judgement as a result of quoted prices being unavailable (level 3 assets). These holdings together represented 28.6% (£1,942.9 million) of the total pension assets held.</p> <p>The asset classes where significant audit effort and judgement was focused were investment properties, special purpose investment vehicles and private equity investments.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Benchmarking assumptions: We used our actuarial specialists to challenge the key assumptions (in particular, the discount rate and inflation and mortality rates). This involved comparing the assumption to available market data, our expectation and to other similar UK pension schemes' assumptions; - Assessing base data: We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2019;

	The risk	Our response
Net defined benefit obligation (continued)	<p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the gross defined benefit obligation and level 3 pension assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 6.1.5) disclose the sensitivity estimated by the Partnership.</p>	<ul style="list-style-type: none"> - Our valuation expertise: For hard-to-value plan assets, we used our own property valuation specialist to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. For private equity funds and special purpose vehicles, we obtained direct confirmations and assessed historical accuracy of valuations to help inform whether current valuations were appropriate; - Methodology choice: We have assessed the pricing model methodologies used with reference to the Royal Institute of Chartered Surveyors for property and the International Private Equity and Venture Capital Valuation guidance for private equity funds included in plan assets; - Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the net deficit to these assumptions. <p>Our results</p> <p>We found the valuation of the gross defined pension obligation and level 3 assets to be acceptable (2020: acceptable).</p>

	The risk	Our response
<p>Long leave provision</p> <p>£150.7 million (2020: £153.5 million)</p> <p><i>Refer to page 75 (accounting policies) and pages 75 to 76 (financial disclosures)</i></p>	<p>Subjective estimate</p> <p>The Partnership has a long leave scheme, open to all partners, which provides up to six months' paid leave after 25 years' service. The basis of the calculation of the liability is based upon a significant level of estimation and judgement. Small changes in the key assumptions, for example the discount rate, staff turnover and salary increases can have a material impact on the liability.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the long leave liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Benchmark assumptions: We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions used such as the discount rate, RPI inflation rate and salary increases to available market data and our expected range; - Sensitivity analysis: We performed sensitivity analysis over these assumptions. <p>Our results</p> <p>From the evidence obtained, we considered the level of provisioning to be acceptable (2020: acceptable).</p>
<p>Parent company financial statements – Valuation of investments</p> <p><i>Refer to page 113 (financial disclosures)</i></p>	<p>Low risk, high value</p> <p>The carrying amount of the Company's investment in subsidiaries are valued at cost, less allowances for impairment. We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgment.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Test of details: Comparing the investment carrying values to the net assets of the investments to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.

	The risk	Our response
Parent company financial statements – Valuation of investments (continued)	However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effort on our overall parent company audit.	<ul style="list-style-type: none"> - Assessing subsidiary audits: Assessing the work performed over the subsidiaries and considering the results of the work on those subsidiaries' profit and net assets. <p>Our results</p> <p>We found assessment of the carrying value of investments to be acceptable (2020: acceptable).</p>

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Partnership financial statements as a whole was set at £13.5 million, determined with reference to a benchmark of Partnership revenue (as disclosed in note 2.2), of £10,771.8 million, of which is represents 0.13% (2020: 0.13%).

Materiality for the parent company financial statements as a whole was set at £11.7 million (2020: £11.7 million), determined with reference to a benchmark of Company total assets of £4,850.7 million, of which is represents 0.3% (2020: 0.3%).

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.7 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Partnership's 17 (2020: 17) reporting components, we subjected 5 (2020: 5) to full scope audits for Partnership purposes. In addition, 1 component (2020: 1) was subjected to specified risk-focused audit procedures. The latter was not individually significant enough to require a full scope audit for Partnership purposes but did present specific individual risks that needed to be addressed over a liability balance.

The components within scope of our work accounted for the following percentages; 98% of Partnership revenue (2020: 99%), 87% of Partnership total assets (2020: 94%) and 87% of Partnership profit before tax (2020: 79%). The remaining 2% of Partnership revenue, 13% of Partnership total assets and 13% of Partnership profit before tax is represented by 11 reporting components, none of which individually represented more than 1% of any Partnership revenue, Partnership profit before tax or Partnership total assets. For these residual components, we performed analysis at an aggregated Partnership level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £3.0 million to £11.7 million, having regard to the mix of size and risk profile of the Partnership across the components. The work on 1 of the 6 components (2020: 1 of the 6 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit and risk committee, internal audit, legal counsel and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Risk Committee and Remuneration Committee meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we performed procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment, long leave provision assumptions and pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited perceived pressure on management to achieve an expected revenue target and limited opportunity to commit fraud.

We also identified a fraud risk related to the calculation of impairment in response to increased forecast risk as a result of Covid-19 leading to opportunity to manipulate assumptions. Further detail in respect of this is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, manual journals posted irregularly by users and unusual opposing entries including cash or borrowings.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through our discussion with the directors, and other management (as required by auditing standards, and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pensions legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect; health and safety, General Data Protection Regulation (GDPR), fraud bribery and corruption, environmental protection legislation, export control, Consumer Rights Act and employment law recognising the nature of the Partnership's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit and Risk Committee matters related to actual or suspected breaches of laws and regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 131, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Michael Maloney

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

21 April 2021