Company No. 00233462

JOHN LEWIS PLC
Financial Statements for the year ended 25 January 2020

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Company information

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Company number:	00233462
Independent auditor:	KPMG LLP 15 Canada Square London E14 5GL

Strategic report for the year ended 25 January 2020

John Lewis plc ('the Group' or 'the Company') present their audited consolidated financial statements for the year ended 25 January 2020.

The Company is the principal trading subsidiary of John Lewis Partnership plc ('the Partnership'), and owns Waitrose Limited. The Group includes Waitrose and John Lewis and has 80,800 employees – or Partners – for whom the Partnership is owned in Trust.

Review of Performance

Key performance indicators

	2020	2019
Gross sales growth (%)	**(1.5)**	1.0
Like-for-like sales growth[1] (%)		
- John Lewis	**(1.8)**	(1.4)
- Waitrose (excludes fuel sales)	**(0.2)**	1.3
Increase in 'high spending' customers[2] (%)		
- John Lewis	**(4.4)**	(2.2)
- Waitrose	**(4.7)**	1.7
Average non-management Partner hourly pay above National Living Wage[3] (%)	**16.7**	17.0
Partner pay as a % of sales	**14.4**	14.0
Return on Invested Capital (ROIC)[4] (%)	**5.8**	7.3
Debt Ratio[5] – total net debts as a multiple of cash flow	**3.9x**	4.3x
Partnership profit per average full time equivalent (FTE)[6] (£000)	**3.5**	5.0

1 Comparison of sales between two periods in time such as this year to last year, removing the impact of branch openings and closures.

2 'High spending' customers are those customers who exceed particular spend and purchase frequency thresholds over a given time frame. As time passes the level of data available on customer spend increases; primarily returns data and the ability to link spend to a specific customer. Prior year KPIs are therefore restated each year to reflect the most recent data available.

3 Average non-management Partner hourly pay for those on permanent contracts and aged 18 years old and over, as a percentage above the April 2019 National Living Wage of £8.21 for 25 years and over. Non-management Partners are Level 9 and Level 10 Partners, excluding Assistant Team Managers.

4 Operating profit before Partnership Bonus and exceptional items, but after IFRS 16, adjusted for above market reward and a notional tax charge, as a proportion of average operating net assets. The definition for 2018/19 and all preceding years is before IFRS 16 and includes operating profit before Partnership Bonus and exceptional items, adjusted for above market reward, a notional interest on leases and a notional tax charge, as a proportion of average operating net assets, adjusted to reflect the value of leased assets. This measure is important as it demonstrates how effectively we are utilising our assets. Our ROIC declined by 1.5 percentage points, with 0.8 due to the impact of IFRS 16 in 2019/20.

5 Comparison of our total net debts (including pension deficit and lease liabilities) to adjusted cash flow we generate each year.

6 Profit before Partnership Bonus and exceptional items, but after IFRS 16 and tax, adjusted for above market reward, divided by the average number of full-time equivalent Partners. The definition for 2018/19 and all preceding years is before IFRS 16.This measure is important as it provides the best indication of Partner productivity. Profit per average FTE declined by £1,500, with £900 due to the impact of IFRS 16 in 2019/20.

Strategic report for the year ended 25 January 2020 (continued)

Performance summary

As expected, trading remained challenging throughout the year. At full year, Profit before Partnership Bonus, tax, exceptional items and IFRS 16[1] was significantly lower than last year. However, our balance sheet and liquidity position remained strong and we improved our Debt Ratio at 3.9 times, the lowest since January 2014.

Our profit before Bonus, tax, exceptional items and IFRS 16 declined to £121.5m from £158.3m in 2018/19. In John Lewis this was predominantly driven by sales being weaker than last year and also by the substantial investment we have made in IT. In Waitrose, profits were broadly consistent year on year as margins improved and costs were well controlled.

Overall, gross sales declined by 1.5% to £11.5bn and profit before Partnership Bonus, tax, exceptional items and IFRS 16 was down 23.2% to £121.5m. Partnership Bonus has been awarded at 2% for the year 2019/20.

Our financial strategy is focused on improving our financial strength and flexibility and managing cash and liquidity tightly. This will be even more vital during 2020 as the business adapts to the impact of Coronavirus. In 2020, we will also undertake a Strategic Review of the business, to create a growth plan for the future. We will undoubtedly be required to reprioritise the phasing and shape of the Strategic Review over the coming months as the Coronavirus pandemic evolves. Therefore it is likely that our Strategic Review will take longer than originally planned. What is certain, is that however our plans develop and however long this takes, customers and Partners remain firmly at the heart of everything we do and every decision we make.

We took a set of actions over the last four years, knowing our profit could be volatile and because of those actions we have retained robust cash reserves. We have maintained a liquidity position of £1.4bn despite repaying our £275m bond in April 2019, out of cash reserves, as part of our financial strategy to deleverage the business. We have no financial debt maturing this year.

In readiness for Brexit, we also ensured our financial resilience and have been taking steps to increase our foreign currency hedging, build stock where sensible to do so, and improve customs readiness. To help manage the impact Coronavirus is having on British retailers, the government's decision to introduce a business rates holiday will save the Group around £160m over the next 12 months. In addition, VAT and wages support is welcomed. Our current scenario, which takes into account the temporary closure of our John Lewis department stores, and models a significant net cash outflow in the year, shows that we have sufficient liquidity. However, we are not complacent; the scale of the societal and business impact of Coronavirus is like nothing we have seen in recent times. We will continue to take further steps to protect our liquidity as far as possible by reducing expenditure such as:

- Reducing our capital and investment expenditure by pausing projects and change activity;
- Deferring or cancelling discretionary spend, reducing non-essential spend at all levels and freezing non-essential recruitment; and
- Reducing the supply pipeline in general merchandise to reflect the impact of our temporary shop closures.

[1] In 2019/20, this was £121.5m (2018/19: £158.3m), calculated as profit before tax (£145.3m) plus Partnership Bonus (£30.9m), exceptional items (£107.4m credit) and IFRS 16 adjustment (£52.7m). The IFRS 16 adjustment is calculated as additional depreciation for right-of-use assets (£134.7m), additional interest on lease liabilities (£103.5m), less IAS 17 rent expense no longer recognised in the income statement since transition to IFRS 16 (£185.5m). This results in an increase in operating profit before Partnership Bonus and exceptional items of £50.8m, and a decrease in profit before Partnership Bonus, tax and exceptional items of (£52.7m). These measures are important as they allow meaningful comparison of underlying profit performance with the prior year, which is stated before the adoption of IFRS 16.

Strategic report for the year ended 25 January 2020 (continued)

Waitrose

Waitrose operating profit before exceptional items and Partnership Bonus grew by £9.5m to £242.5m (after excluding the impact of £29.8m resulting from transitioning to IFRS 16 in the year). This was driven by an improvement in gross margins and a strong operational performance being offset by cost inflation, including investment in non-management Partner pay.

During the year 59 category reviews were completed. We also launched our largest summer food range – Scrumptious Summer – and relaunched Waitrose No.1 with more than 200 new and improved product lines.

To ensure every Waitrose Partner becomes a food ambassador, we launched School of Food. Classes are held at our cookery schools in Finchley Road, London and Salisbury, and combine cooking and learning sessions with chefs so Partners can gain confidence in sharing recommendations and inspiring customers to try new products. To date, over 3,500 Partners have attended.

To help customers shop differently and save thousands of tonnes of unnecessary plastic, our 'Unpacked' trial launched at Waitrose Botley Road, Oxford in June 2019. Aisles show more than 200 products out of their packaging, a dedicated refillable zone, the UK's first supermarket frozen 'pick and mix' section and four different wines and beers available on tap.

We have trialled a new pop-up service in Waitrose Canary Wharf and John Lewis White City, offering shoppers the opportunity to make healthier choices, based on their unique DNA and lifestyle.

After a successful 19 years together, we announced our commercial relationship with Ocado would end in September 2020. This means the only place customers will be able to buy our products online in future is via waitrose.com. We've been running the Ocado relationship alongside waitrose.com for a number of years and seen strong online growth. We are continuing to invest in waitrose.com to achieve our growth ambitions. This is supported by a new customer fulfilment centre opening in Enfield this year which complements our existing site in Coulsdon and our network of branch picking from shops across the country.

In Waitrose we announced the sale of five shops to other retailers and also closed a further seven shops later in the year. We announced in March that a further three Waitrose shops will close later this year.

John Lewis

John Lewis operating profit before exceptional items and Partnership Bonus was down £75.2m to £64.0m (after excluding the impact of £24.5m resulting from transitioning to IFRS 16 in the year). This was driven by weaker sales in Home and Electricals, IT investment to enable accelerated development of our customer proposition, and growth in non-management Partner pay well ahead of inflation, which was only partly offset by productivity improvements.

Autumn saw the most significant investment to date for John Lewis menswear with a 280-piece collection designed by our Partners. This was supported by a new men's personal styling experience at John Lewis Oxford Street. During the two-hour service, guests are fed, watered or whiskied, while a personal stylist sets to work.

At Christmas, John Lewis Click & Collect orders could be collected until 24 December. We also extended our Click & Collect network to third party retailers, starting with a trial with Boden. This followed the introduction of partnerships with Co-op and Booths, offering customers access to our Click & Collect service in areas where we have a lower shop presence. John Lewis also launched a new evening delivery service offering customer slots between 6pm and 10pm, Monday to Friday. John Lewis returns can also now be returned to waitrose.com delivery drivers.

And in July, after 85 years of trading, we closed the John Lewis shop, Knight & Lee, in Southsea.

At each reporting date, we are required to perform a review of the future economic benefits expected to be generated from our estate. For those stores and sites where these future cash flows do not support the current value held on the Group's balance sheet for these assets, we are required to recognise an impairment charge. In tougher trading conditions we would anticipate a higher level of impairments, but would expect to see these reverse in circumstances where individual branch performance improves. In 2019/20, there has been a reassessment of the role that John Lewis shops play in driving online purchases. With online becoming a stronger channel in its own right, that link between online and shops is not as strong any more. The Group has reduced the online sales used in the estimation of how much money the shop might make in the future. This has led to a lower proportion of those online cash flows being considered attributable to individual shops. Combined with a challenging trading environment, this resulted in a net impairment charge in the year of £110.3m in John Lewis.

Strategic report for the year ended 25 January 2020 (continued)

Group

Group includes the operating costs for our Group offices, costs for transformation programmes, our JLP Ventures operations, and certain pension operating costs. Overall Group operating costs before exceptional items and Partnership Bonus decreased by £13.5m to £76.4m (after excluding the impact of £3.5m resulting from transitioning to IFRS 16 in the year).

As part of our Future Partnership plan to enable the organisation to be managed and operated as a single business and ensure we are delivering truly great customer service, a number of areas across the business have been restructured or are undertaking a restructuring process. This includes reviewing our IT and Change teams, which will become Technology & Change. Technology & Change plays a key role in the business and is critical to the long-term sustainability of the Group. This new integrated function will provide a smarter way of working, allowing the Group to consolidate decision-making, while benefiting from advances in operational best practice and technology, which will ultimately provide a better digital experience for our customers.

Last July, we changed the way maintenance services are delivered to John Lewis and Waitrose shops. The Group had been operating the same way for more than 15 years and that structure would not suit our future needs. We now work in a new pan-Partnership Facilities Management function and have formed a strategic partnership with CBRE, a large global facilities management organisation. These changes mean we will not only see improvements to the services we deliver but we will also reduce our costs. Around 350 Partners were subject to the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) and 50 roles were made redundant.

Pensions

Following the decision by Partnership Council on 15 May 2019 to close the Partnership's defined benefit section of the pension scheme to future accrual from April 2020, a past service credit of £249.0m has been recognised for the reduction in the pension obligation. This gain is partially offset by a £93.0m actuarial loss, recognised through equity reflecting a decrease in future expected commutation of the defined benefit pensions. 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 has been recognised as exceptional.

The pension operating income (including exceptional items) was £45.0m compared to a £219.1m charge in the prior year. Pension finance costs were £6.9m, a decrease of £10.1m or 59.4% on the prior year, reflecting a reduction in the nominal discount rate used to determine the finance cost at the beginning of the year from the beginning of the previous year. As a result, total pension income (including exceptional items) was £38.1m, compared to a £236.1m charge in the prior year. See note 2.5 for details on the £249.0m gain recognised as exceptional in the year.

The pension scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Partnership. 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 is being carried out by an independent professionally qualified actuary as at 31 March 2019. As part of the ongoing triennial actuarial valuation of the scheme, underlying membership data has been updated as at 31 March 2019. This has resulted in an actuarial gain, recognised through equity, of £160.6m, reflecting the difference between actual experience compared to assumptions made in estimating the liability. Pension commitments recognised in these financial statements have been calculated based on that updated membership data. The 31 March 2019 triennial actuarial valuation is currently in progress. See note 6 for more details.

In the year, we made deficit reduction contributions of £12.8m, and our total cash contributions to the pension scheme totalled £118.3m, a decrease of £29.9m or 20.2% on the previous year. The total accounting pension deficit at 25 January 2020 was £417.4m, a decrease of £50.7m (10.8%) since 26 January 2019.

Over the course of the year, the nominal discount rate has decreased by 90bps, to give a nominal discount rate at 25 January 2020 of 1.90%. This reduced nominal discount rate results in a corresponding increase in the pension liability of £1,264.3m. The nominal discount rate has fallen significantly, particularly during January 2020, driven primarily by bond yields falling around the world due to global economic conditions and the spread of Coronavirus.

Overall the accounting valuation of pension fund liabilities increased by £738.0m to £6,821.0m, and the pension fund assets increased by £788.7m to £6,403.6m.

Strategic report for the year ended 25 January 2020 (continued)

Financing

Over the year, total net debt (excluding the lease liabilities recognised for the first time this year under IFRS 16 of £2,094.9m as at 25 January 2020), reduced by over £200m, helped by strong cash flow generation and the decision to close the final salary defined benefit pension scheme.

Our balance sheet and liquidity position remained strong and 2019/20 saw an improvement in our Debt Ratio at 3.9 times. We have a commitment to meet our Debt Ratio target of three times, in around four years. This will be reviewed in light of the spread of Coronavirus.

Net finance costs increased by £94.6m to £161.3m, principally due to the interest charge on outstanding lease liabilities following the adoption of IFRS 16 this year. Excluding the impact of IFRS 16, net finance costs reduced by £8.9m to £57.8m. This reduction is principally driven by reduced interest costs on borrowings following the repayment of financial debt; reduced pension finance costs due to a lower pension accounting deficit at the beginning of the year compared to the beginning of the previous year; and an offset of higher long leave finance costs arising from volatility in market driven assumptions.

Ethics and sustainability

We believe that our business should give more than it takes – to our customers, the communities we operate in, and each other.

As part of our Christmas charity campaign, 1,500 people across the country enjoyed a community festive feast provided by our Partners. Organised alongside food redistribution charity FareShare, it formed part of our joint campaign to bring people together at Christmas.

In 2019 Waitrose launched a £1m grant fund to support projects focusing on reducing unnecessary plastic pollution in the UK. Plan Plastic – The Million Pound Challenge – is funded by our 5p carrier bag levy and saw Waitrose allocate grants to five projects, each receiving grants from £150,000 to £300,000. Projects ranged from technology that tags fishing nets to plastic-eating fungi. In a similar commitment to reducing plastic waste, all plastic hangers in John Lewis can now be recycled, enabling the recycling of 10 million hangers a year.

Also, in Waitrose, 85% of all our own-brand packaging is now widely recyclable and 99% own-brand black plastic has been removed. Loose fruit and vegetable bags were replaced with home compostable alternatives and 5p single-use Waitrose carrier bags removed, saving in total 134 million plastic bags a year. As a result, Waitrose moved up two places in this year's Greenpeace plastics survey to first position on their score card, reflecting our efforts to eliminate unnecessary packaging. Nevertheless, we appreciate that we still have a huge amount of work to do.

John Lewis customers have helped disadvantaged people across the country by paying John Lewis to collect their old sofas. These are re-used where possible, diverting thousands of items from landfill.

Information on the strategies, policies or activities we pursue towards our environmental and social aims, and related risks, is available at www.johnlewispartnership.co.uk

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 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 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 in which we operate.

Strategic report for the year ended 25 January 2020 (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 Company is at the forefront of decision-making, particularly in response to the challenging conditions in retail and, since the year end, the Coronavirus pandemic.

Partners
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. The Directors engage with Partners in many different ways, including regular dialogue, 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, are in the Partnership's Annual Report and Accounts, available at www.johnlewispartnership.co.uk

Customers
The Customer Research Team collects data through surveys, face-to-face research, customer feedback to our Partners and contact centres and external data sources. Regular customer reports are produced for management and are regularly shared with Directors.

Producers and suppliers
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

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.

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 Company also supports a range of charitable and community activity, based on customer input and coordinated through branches. Full detail of activities designed to help Partners and communities thrive, such as the John Lewis & Partners Foundation and The Golden Jubilee Trust, is available in the Partnership's Annual Report and Accounts at www.johnlewispartnership.co.uk/csr

Business conduct
The Company aims to conduct all its business relationships with integrity and courtesy, and scrupulously to honour every business agreement.

Acting fairly as between the Company's owners
Because the Partnership is held in Trust for the benefit of its members, all Partners share an obligation to improve the Company in the knowledge that they share the rewards of success. The share of profit is in the form of Partnership Bonus.

Strategic report for the year ended 25 January 2020 (continued)

Principal risks and uncertainties

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

1 Competitive customer proposition		
Risk	**Controls in place**	**Mitigations**
Failure to deliver our customer promise and not maintain our competitive advantage due to: • Competitor actions putting pressure on market value, our margin and threatening our volumes in grocery; and • The growth of online business models in the general merchandise sector means customers focus more on value for money and are less loyal. This could negatively impact customer proposition and service, which may result in losing customers, impairing our ability to grow long-term profitability.	• Continuing to secure value for all of our customers through our price matching commitments. • Regular strategic risk review and monitoring by the Executive Team. • Regular horizon scanning to inform strategic reviews to continually enhance our customer offer. • Regular strategy implementation, customer and performance metrics evaluation.	• Successful launch of our first joint Partnership Christmas advert. • Continued differentiation on services and experiences. This year, new in-store initiatives launched, such as Waitrose 'Unpacked' trials and additional Style Studios in John Lewis, to improve customer experience. • Continued differentiation on products – Waitrose No.1 launched and new exclusive brands and products launched in John Lewis this year. • Development of online offering and expansion of Waitrose online capacity • Unlocking further value between our brands. • Further increasing focus on customer service excellence.

2 External environment		
Risk	**Controls in place**	**Mitigations**
External economic pressures, due to the impact of government policy, Brexit, a weaker economy and lower pay increases, reduce our customers' spending power and harm our suppliers' financial resilience. This could result in our customers moving away from our core product offers or buying less, or key suppliers demanding higher prices or failing us. This could impair our ability to grow profitably.	• Monthly monitoring of business performance by the Executive Team. • Horizon scanning. • The Brexit Team regularly review the potential impacts and opportunities to influence outcomes.	• External economic factors have been incorporated into the business plan. • Ongoing monitoring, analysis and actions implementation to mitigate the potential impacts of Brexit. • Crisis response team actively managing the response to the rapidly changing Coronavirus situation.

Principal risks and uncertainties (continued)

<table>
<tr><td colspan="3">3 Operating model strain</td></tr>
<tr><td>Risk
Increasing external pressures create strain on the effectiveness and efficiency of our operating model to deliver customer needs.

Strain on our Partners, systems and operational potential could ultimately impair our ability to meet customer needs and grow profitably.</td><td>Controls in place
Annual business plan process robustly reviewed.
Monthly Executive Team business performance review and action taken.
Regular review of programmes to reprioritise to support the ongoing development of our operating model.</td><td>Mitigations
Implementation of Future Partnership to bring together the two brands and create a more effective and efficient operating model.
Further development of Waitrose online ahead of our deal with Ocado ending in September 2020.
Savings achieved through improved management of the property portfolio.
Implementation of further phases of our Technology & Change transformation programme.</td></tr>
<tr><td colspan="3">4 Change delivery</td></tr>
<tr><td>Risk
The complex nature and scale of interdependencies of the change programmes may affect our ability to implement programmes/projects to time, budget and quality, ability to manage, and ability to embed the change into the business and realise the benefits.
This could result in increased costs, disruption to our trading activities impacting our customer experience, missing our growth ambitions and losing the engagement of our Partners.</td><td>Controls in place
Programme and project governance in place enables early identification and remediation of issues considering the impact on Partners and interdependencies on other programmes and projects.</td><td>Mitigations
Change team operating model centralised, to support delivery of the Partnership change portfolio.
Implementation of the new change governance structure to align to Future Partnership.
Embedding and maturing Partnership tools, framework and reporting to support decision-making.</td></tr>
<tr><td colspan="3">5 Information security</td></tr>
<tr><td>Risk
Loss of key Partner, customer or business data, due to a breach of IT or data security and/or failure to protect integrity and availability of data.

This could cause financial, regulatory, legal and reputational damage, and disruption to business operations.</td><td>Controls in place
Robust network security and regular testing to provide early identification of network or system vulnerabilities.
Continuous security monitoring.
Security impact assessments undertaken for projects to ensure compliance with security standards.
Partner training.</td><td>Mitigations
Continued enhancements made to the systems and controls that hold Partner, customer and business data to improve resilience, through implementation of the IT Security programme.
Improvements to prevent, detect and respond to external cyber attacks.
Continuous Awareness campaign.
Simplifying the IT estate.
Implementation of operating model change for IT security as part of Future Partnership transformation.</td></tr>
</table>

Strategic report for the year ended 25 January 2020 (continued)

Principal risks and uncertainties (continued)

6 Pension obligations		
Risk Increases in the pension liabilities, driven by a decrease in the real discount rate for example, and a significant devaluation in the assets being held could cause a significant increase in the size of the pension deficit. This could result in additional funding required by the Partnership, diverting resources away from other investment opportunities.	**Controls in place** • Regular review of valuation assumptions through internal and external monitoring. • Regular monitoring of external factors to inform hedging strategy. • Pension risk and funding strategy reviewed regularly.	**Mitigations** • Triennial evaluation under way. • Pension Benefit Review approved by Partnership Council and the Partnership Board. Changes to the pension scheme are being implemented, including closure of the defined benefit section of the scheme.
7 Ownership model strain		
Risk Partners and their engagement are key to the success of our co-ownership model. Commercial decisions made to secure the economic success of the business as well as external pressures on Partners could unconsciously impact Partners' belief in, and commitment to, our co-ownership model. This could compromise individual Partner performance, collective productivity and brand advocacy (Principle 1), thus losing the competitive advantage of our co-ownership model.	**Controls in place** • Leadership engagement through change. • Annual Your Voice Partner survey to assess Partner sentiment. • Oversight of Partnership Board, Executive Team and our democratic bodies.	**Mitigations** • Continued focus on initiatives to empower Partners. All leadership attended an Empowered Leadership event to support their leadership development. • A review of democratic engagement under way to align to the new Future Partnership structure. Partnership Council to agree and implement changes. • Continue to lead on wellbeing in the workplace. • Increased communication in response to Partner feedback.
8 Regulatory Non-Compliance		
Risk Failure to comply with key regulatory requirements, due to lack of awareness or understanding and/or failure to follow guidance on regulations. This could cause financial, regulatory, legal and/or reputational damage, which, depending on scale, could cause major trading impacts.	**Controls in place** • Policies and Partner training in place. • Clear accountability for personal data security and privacy across the Partnership.	**Mitigations** • Data owners continue to work with Information Security teams to develop and deliver data protection priorities. • Implement a new HR system to support improved functionality for HR compliance. • Embed new supplier assurance process and system. • Development and implementation of the Partnership's regulatory framework. • Ongoing horizon scanning of new regulation and potential Partnership impact and response.

Strategic report for the year ended 25 January 2020 (continued)

Principal risks and uncertainties (continued)

Coronavirus

The Coronavirus pandemic is the most significant external risk currently facing the Group, impacting our customers, Partners, supply chain, stores and online operations. A summary of the key impacts of Coronavirus and our response is included below:

Customers and the community: During this unprecedented time, it is more important than ever to support our customers, local communities and those that are most vulnerable. The Group has created a £1m community support fund for Waitrose branches to use where help is needed most, dedicated £225,000 to charities, introduced a priority shopping hour for elderly and vulnerable customers and set aside essential goods for NHS workers.

Partners: The safety and wellbeing of our Partners is our top priority. Extra steps and precautionary measures have been introduced in our stores to protect Partners, including our five point plan, which includes limiting the number of customers in store, dedicated marshals to monitor social distancing, screens introduced at checkouts, protective visors made available to Partners and cashless payments being encouraged.

Supply chain: Our grocery supply chain has been under immense pressure to meet consumer demand, both in store and online. We continue to support our suppliers as we see some stabilisation, add resilience to our distribution network and prioritise the most important goods to serve our customers, whilst not compromising on our sourcing principles.

Temporary store closures: For the first time in the Group's history, 50 of our John Lewis department stores have temporarily closed and the Partners supporting these branches, where possible, have been redeployed to support areas of greatest need across Waitrose supply chain, branches and online operations in order to aid feeding the nation. johnlewis.com continues to operate to serve our customers.

Liquidity: Whilst the temporary closure of John Lewis department stores has a significant impact on cash flow, a number of steps are being taken to maintain sufficient liquidity. For example, significantly reducing capital investment over the year, reducing discretionary spend such as on marketing and reducing the supply pipeline in general merchandise to reflect the impact of our temporary shop closures. Furthermore, the government's decisions to introduce a business rates holiday and VAT and wages support is welcomed.

The Group will continue to follow Public Health England (PHE) and government guidance to implement contingency mitigations as appropriate and do the best possible for our customers, Partners and community groups.

Brexit

The Group continues to take a proactive approach to preparing for Brexit. During the year, the Group prepared for a worst case, no-deal scenario ahead of the three potential no-deal Brexit dates, as this would have caused the greatest disruption to customers, Partners and trade. The Group will monitor closely the negotiations on the future EU-UK economic relationship, contributing to that process where relevant, and taking the necessary steps to prepare for either the new trading relationship or a potential no-deal Brexit scenario from 2021. A Group approach continues to be adopted to risk assess the potential impact of Brexit as the outcomes of trade negotiations become clearer throughout the year. Brexit mitigation groups, with established risk leaders, have been leading on monitoring and actioning options to mitigate the potential impacts of Brexit. Ahead of each potential no-deal Brexit date, contingency plans were mobilised, such as stock building, the implementation of our hedging strategy; and incident teams put on standby, ultimately to be stood down. Progress and recommendations in relation to our highest risks have been regularly reported through our existing governance structure.

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 3 to 4); current strategy (pages 4 to 8); and risks and uncertainties (pages 9 to 12).

The Future 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 £1.5bn in total liquidity available, at the date of approval of these financial statements. Consistent with previous years, the Directors have assessed the Group's viability over a three-year period to January 2023. This matches our business planning cycle, which allows financial modelling to be supported by the budget and business plan ('Plan') approved by the Partnership Board.

Given the pace of change in the retail sector, and the recent political and economic uncertainty due to Coronavirus, we expect to see significant volatility over the short term reducing our expected performance for 2020/21. This includes the temporary closure of John Lewis stores as we take necessary measures to protect the health and safety of customers and Partners, manage supply chain challenges and redeploy Partners to Grocery to meet increased demand. The measures we're taking now will help to protect us against future uncertainty and, given the experience in regions of the world where the pandemic was first felt, we believe that trading conditions will partially recover as we move through into 2021/22.

In assessing the viability of the Group, the Directors considered the Group's revenue, profit, net assets and cash position under the most recent Plan approved by the Partnership Board. In the context of a challenging retail sector, these took account of factors such as increased competition, sustained cost pressures and Brexit uncertainty; however they did not reflect the impact of Coronavirus. Severe but plausible downside scenarios were therefore applied as additional sensitivities overlaid on the Plan. These were based on the potential financial impact of the Group's principal risks and the specific risks associated with Coronavirus and Brexit. 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 scenarios and how they correspond to the principal risks, Coronavirus and Brexit risks (pages 9 to 12), have been assumed to all occur over the three-year period of assessment in order to assess the Group's ability to withstand multiple challenges, and also assume that no new financing is obtained. The potential impacts of Coronavirus have been built into the downside scenarios, but, the potential impact of further one-off 'black-swan' events that cannot reasonably be anticipated are not included. We modelled two scenarios (A and B) to stress test the likely cash and profit impact of different levels of falling sales and margin.

Strategic report for the year ended 25 January 2020 (continued)

Principal risks and uncertainties (continued)

Viability statement (continued)

Scenario A assumes closure of all John Lewis shops for a period of 12 weeks with significant decline in sales in John Lewis, for both shops and online, for the remainder of 2020/21 of 33% against Plan based on a weaker UK economy and consumer confidence. In Waitrose which represents nearly 60% of total Group sales, the downside models a decline in sales of -10% for 4 months despite seeing actual sales increase since the pandemic outbreak. This represents the impacts of short supply and potential shop closures to consolidate resources rather than falling demand. This scenario models a level of activity in Waitrose consistent with prior years notwithstanding that current levels of activity, both in store and online, are significantly ahead of last year. The downside also models an additional cash outflow of £200m in respect of working capital and unbudgeted one-off costs.

Scenario B assumes closure of John Lewis shops and online for a period of 6 months with a further significant decline in sales, in both shops and online, for the remaining 4 months of 2020/21 of up to 45% against Plan. The decline in Waitrose and additional cash outflows modelled in Scenario A continue to be included in Scenario B (see table below). The impact of the downside adjustments has been reviewed against the Group's projected cash position and financial covenants over the three-year viability period for each scenario. Should these occur, mitigating actions would be required to ensure that the Group remains liquid and financially viable. 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 planned capital, revenue and marketing spend, lowering pay costs, asset sale and leasebacks and removal of Partnership Bonus. This includes mitigations within the control of the Group (£1.8bn, Scenario A; £2.3bn, Scenario B) and excludes those which place some reliance on the external market (asset sales). The Group's projected cash position assumes utilisation of government support including the business rates holiday and job retention scheme. Our mitigations assume a degree of ongoing government support for job retention schemes should the current social distancing requirements be extended and consequently stores closed for longer. Internal mitigations alone would be sufficient to absorb the effects of the downside scenarios. 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 scenarios 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 most severe downside, Scenario B as 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 Coronavirus and reduced trading performance across both brands for years 2 and 3 of the assessment, resulting in a pre-mitigation cash reduction to Plan in excess of £2bn over the 3 years. In order for the mitigations described above to be insufficient to maintain liquidity and covenant headroom, a further unbudgeted cost of £0.4bn would need to be incurred in 2020/21. Unprecedented uncertainty exists in respect of the potential impact of Coronavirus in 2020/21. We have made our assessment based on our best view of the severe but plausible downside scenarios 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 Scenario B) which may cast significant doubt about the Group's ability to continue to be viable over the 3 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; meet its liabilities as they fall due; retain sufficient available cash across all three years of the assessment period; and not breach any covenants under any drawn 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 (pages 63 to 71 on the Partnership's Annual Report and Accounts).

Looking ahead

Looking ahead, we are renewing our focus on exceptional customer service and designing, developing and scaling innovative omni-channel propositions that will set us ahead of the curve. We are planning for the market to remain volatile, in particular in light of the current political and economic uncertainty related to Coronavirus. In the short-term we may be required to reassess our financial priorities, and take measures such as paying suppliers early, and increasing the number of Partners dedicated to serving our customers' immediate needs on the shopfloor, on the road and in our warehouses. However, we remain confident that in the longer term our focus on new products and service offerings will reinforce the strength of our brands and harness the power of our key differentiator, our Partners.

Equal opportunities, diversity and inclusion

The Group is committed to promoting equal opportunities in employment for existing Partners and 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.

Strategic report for the year ended 25 January 2020 (continued)

Equal opportunities, diversity and inclusion (continued)

The Group achieved Disability Confident Leader status which is the highest accreditation awarded by a government scheme and recognises and supports employers who recruit and retain people with disabilities. We became one of the first major UK high street retailers to publicly report both our gender and ethnicity pay gaps, as well as provide data on age and health and wellbeing by publishing our new Be Yourself. Always report. This is just the first step and we know there is much more we need to do to enable Partners from all walks of life to feel valued for their individuality, thrive in our business and share a sense of belonging, which is reflected in our Group values. To read the full report, visit www.johnlewispartnership.co.uk/csr/reports.html

Our gender pay mean gap for April 2019 is 13%, which is a slight increase of 0.3% since April 2018. The median gap is 8%, which is a slight decrease of 0.2% since April 2018. The key reasons for our gap are structural as there are more women than men in lower paid roles but fewer in higher paid ones. To calculate our ethnicity pay gap, we designed the methodology ourselves, using data from the number of Partners in the business in April 2019. Because of this, the data may not be comparable to future years if mandatory ethnicity reporting is introduced by the government. Our ethnicity mean gap is 8.0% and our median gap is -1.2%. The factors that can affect ethnicity pay gap data are different to gender. In particular, location can play a key role. As a national retailer, we have a higher proportion of Partners from ethnic minority backgrounds in London. This is in line with the diverse demographics in the capital, where hourly pay is higher compared to the rest of the UK which explains our mean gap. But having a minus median pay gap means pay for our ethnic minority Partners is higher than that of Partners not from ethnic minority backgrounds.

Ethnicity split of the Group[2]	**2019/20[1]**	2018/19
	%	%
Asian or Asian British	**6.8**	6.8
Black or Black British	**4.7**	4.7
Chinese or other ethnic groups	**1.3**	1.3
Mixed origin	**2.5**	2.4
Not given	**1.6**	1.6
White	**83.1**	83.2

Gender diversity of the Group	**2019/20[1]**		2018/19	
	Female %	**Male %**	Female %	Male %
Partnership Board[3]	**38**	**62**	38	62
John Lewis plc Board[4]	**50**	**50**	60	40
Directors and Management Board	**34**	**66**	28	72
Senior Managers	**49**	**51**	50	50
All other Partners	**58**	**42**	58	42

1 As at the year-end date.

2 Based on Partners who self-declared ethnicity.

3 Since Sharon White's appointment as Chairman, the gender diversity of the Partnership Board is 50% female and 50% male.

4 Since Sharon White's appointment as Chairman, the gender diversity of the John Lewis plc Board is 75% female and 25% male.

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

Sharon White (Chairman)
Director, John Lewis plc
15 April 2020

Directors' report for the year ended 25 January 2020

The Directors present their report and the audited consolidated financial statements for the year ended 25 January 2020.

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 4 to 8
- Risk management on pages 9 to 12
- Equal opportunities, diversity and inclusion, including adjustments for disabled persons, on pages 13 to 14
- Research and development on pages 4 to 8

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 7 to 8).

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 businesses: John Lewis operates in a number of different formats including John Lewis department stores, John Lewis at home stores, online (johnlewis.com), home and other services, and sourcing offices in Gurgaon, India and Kwun Tong, Hong Kong; Waitrose operates supermarkets and convenience stores including shops which operate under licence in the Middle East, online (waitrose.com) 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 35.

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

Patrick Lewis

Bérangère Michel

Paula Nickolds (resigned 23 January 2020)

Peter Simpson (Company Secretary)

Directors' report for the year ended 25 January 2020 (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 all members of the Partnership's Executive Team including the Executive Directors on the Partnership Board, the Chairman and the Executive Director, Finance. 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 52 to 89 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 12 to 13 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 34 to 39 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 the Group's 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 63 to 71 of the Partnership's Annual Report and Accounts.

KPMG LLP was the Group's external auditor for 2019/20. 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 9 to 12 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 63 to 71 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, the chairs of Divisional Risk Committees 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.

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 and other elected councils and forums, 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.

Directors' report for the year ended 25 January 2020 (continued)

Conflicts of interest

The Partnership Board and 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 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 111.

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.

Capital structure

At 25 January 2020, 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 (2019: £nil).

Use of financial instruments

The notes to the financial statements, including note 7 from pages 76 to 81, 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 12 to 13 for further detail, in particular the assessment by the Directors of the impact on the Group of the Coronavirus 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 3 to 14.

Directors' report for the year ended 25 January 2020 (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 (2019: £nil).

Ethics and sustainability

For more information on the progress we are making on our ethics and sustainability aims 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 on 16 July 2020 at 171 Victoria Street, London, SW1E 5NN.

Events after the balance sheet date

Since 25 January 2020, there have been 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

15 April 2020

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 25 JANUARY 2020

Notes		2020[1] £m	2019 £m
1.2, 2.1	**Gross sales**	**11,544.8**	11,724.1
2.1, 2.2	**Revenue**	**10,151.3**	10,316.7
	Cost of sales	**(6,789.2)**	(6,931.0)
	Gross profit	**3,362.1**	3,385.7
2.3	Other operating income	**125.1**	112.1
2.4	Operating expenses before exceptional items and Partnership Bonus	**(3,256.9)**	(3,272.1)
3.3	Share of loss of joint venture (net of tax)	**(0.2)**	(0.7)
2.1	**Operating profit before exceptional items and Partnership Bonus**	**230.1**	225.0
2.5	Exceptional items	**107.4**	2.1
2.1	**Operating profit before Partnership Bonus**	**337.5**	227.1
5.1	Finance costs	**(175.0)**	(80.3)
5.1	Finance income	**13.7**	13.6
	Profit before Partnership Bonus and tax	**176.2**	160.4
	Partnership Bonus	**(30.9)**	(44.7)
2.6	**Profit before tax**	**145.3**	115.7
2.9	Taxation	**(37.7)**	(39.7)
	Profit for the year	**107.6**	76.0
2.1	**Profit before Partnership Bonus, tax, exceptional items and IFRS 16**	**121.5**	158.3

[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 (see note 1.1.4).

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 25 JANUARY 2020

Notes		2020 £m	2019 £m
	Profit for the year	**107.6**	76.0
	Other comprehensive (expense)/income:		
	Items that will not be reclassified to profit or loss:		
6.1	Remeasurement of defined benefit pension scheme	**(193.6)**	272.7
2.9	Movement in deferred tax on pension scheme	**30.4**	(55.3)
2.9	Movement in current tax on pension scheme	**2.5**	7.1
	Items that may be reclassified subsequently to profit or loss:		
	Fair value (loss)/gain on cash flow hedges	**(8.7)**	21.8
2.9	Movement in deferred tax on cash flow hedges	**3.2**	(4.1)
	Gain on foreign currency translations	**0.3**	0.2
	Other comprehensive (expense)/income for the year	**(165.9)**	242.4
	Total comprehensive (expense)/income for the year	**(58.3)**	318.4

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

JOHN LEWIS PLC

CONSOLIDATED BALANCE SHEET

AS AT 25 JANUARY 2020

Notes		2020[1] £m	2019 £m
	Non-current assets		
3.1	Intangible assets and goodwill	**495.5**	512.1
3.2	Property, plant and equipment	**3,535.4**	3,809.7
3.2	Right-of-use-assets	**1,854.9**	–
4.2	Trade and other receivables	**16.5**	58.4
7.2	Derivative financial instruments	**0.1**	0.2
3.3	Investment in and loans to joint venture	**2.5**	2.7
2.9	Deferred tax asset	**0.2**	–
		5,905.1	4,383.1
	Current assets		
4.1	Inventories	**612.9**	657.6
4.2	Trade and other receivables	**321.0**	259.3
7.2	Derivative financial instruments	**4.8**	6.8
3.4	Assets held for sale	**1.5**	23.1
5.3	Short-term investments	**317.2**	265.4
5.4	Cash and cash equivalents	**598.3**	716.8
		1,855.7	1,929.0
	Total assets	**7,760.8**	6,312.1
	Current liabilities		
5.5	Borrowings and overdrafts	–	(274.9)
4.3	Trade and other payables	**(1,625.2)**	(1,660.7)
	Current tax payable	**(9.0)**	(7.7)
5.2, 5.6	Lease liabilities	**(95.4)**	(0.5)
4.4	Provisions	**(108.6)**	(112.3)
7.2	Derivative financial instruments	**(18.7)**	(7.5)
		(1,856.9)	(2,063.6)

	Non-current liabilities		
5.5	Borrowings	**(718.5)**	(713.8)
4.3	Trade and other payables	**(46.8)**	(258.6)
5.2, 5.6	Lease liabilities	**(1,999.5)**	(20.6)
4.4	Provisions	**(144.9)**	(134.7)
7.2	Derivative financial instruments	**(3.9)**	(2.0)
6.1	Retirement benefit obligations	**(417.4)**	(468.1)
2.9	Deferred tax liability	**(20.4)**	(36.2)
		(3,351.4)	(1,634.0)
	Total liabilities	**(5,208.3)**	(3,697.6)
	Net assets	**2,552.5**	2,614.5
	Equity		
8.1	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**(12.8)**	0.9
	Retained earnings	**2,558.3**	2,606.6
	Total equity	**2,552.5**	2,614.5

[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 (see note 1.1.4).

The financial statements on pages 19 to 83 were approved by the Board of Directors on 15 April 2020 and signed on its behalf by Sharon White and Patrick Lewis, Directors, John Lewis plc.

Sharon White and Patrick Lewis
Directors, John Lewis plc

Registered number 00233462

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

JOHN LEWIS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 25 JANUARY 2020

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 27 January 2018	6.7	0.3	1.4	(16.9)	(0.1)	2,306.1	2,297.5
	Profit for the year	–	–	–	–	–	76.0	76.0
6.1	Remeasurement of defined benefit pension scheme	–	–	–	–	–	272.7	272.7
	Fair value gains on cash flow hedges	–	–	–	21.8	–	–	21.8
2.9	Tax on above items recognised in equity	–	–	–	(4.1)	–	(48.2)	(52.3)
	Gain on foreign currency translations	–	–	–	–	0.2	–	0.2
	Total comprehensive income for the year	–	–	–	17.7	0.2	300.5	318.4
	Hedging gains transferred to cost of inventory	–	–	–	(1.4)	–	–	(1.4)
	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**

[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 (see note 1.1.4).

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

JOHN LEWIS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 25 JANUARY 2020

Notes		**2020**[1] **£m**	2019 £m
2.7	**Cash generated from operations before Partnership Bonus**	**698.7**	595.0
	Net taxation paid	**(17.2)**	(33.9)
	Pension deficit reduction payments	**(12.8)**	(37.1)
	Finance costs paid	**(109.0)**	(1.8)
	Net cash generated from operating activities before Partnership Bonus	**559.7**	522.2
	Partnership Bonus paid	**(45.8)**	(74.9)
	Net cash generated from operating activities after Partnership Bonus	**513.9**	447.3
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(191.5)**	(143.9)
	Purchase of intangible assets	**(146.7)**	(166.2)
	Proceeds from sale of property, plant and equipment and intangible assets	**174.9**	13.6
	Finance income received	**4.9**	2.4
3.3	Cash outflow from investment in and loans to joint venture	**–**	(0.5)
5.2	Cash outflow from short-term investments	**(51.4)**	(99.0)
	Cash outflow from acquisition of trade and assets	**–**	(1.0)
	Net cash used in investing activities	**(209.8)**	(394.6)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(54.2)
	Finance costs paid in respect of financial instruments	**(0.7)**	(0.5)
	Payment of capital element of leases	**(92.7)**	(1.7)
	Cash (outflow)/inflow from borrowings	**(275.0)**	124.4
	Net cash (used in)/generated from financing activities	**(422.6)**	68.0
	(Decrease)/increase in net cash and cash equivalents	**(118.5)**	120.7
5.2	Net cash and cash equivalents at beginning of the year	**716.8**	596.1
	Net cash and cash equivalents at end of the year	**598.3**	716.8
5.4	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**151.2**	128.2
	Short-term deposits	**447.1**	588.6
	Bank overdrafts	**–**	–
		598.3	716.8

[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 (see note 1.1.4).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 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.

1.1 ACCOUNTING PRINCIPLES AND POLICIES

We prepare our financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. 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.

This is the first set of the Group's consolidated financial statements in which IFRS 16 'Leases' has been adopted. The modified retrospective approach was applied on transition and therefore comparative information is not restated. The cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application, 27 January 2019. Changes to significant accounting policies are described in note 1.1.4.

1.1.1 BASIS OF PREPARATION

The 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, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 52 weeks ended 25 January 2020 (prior year: 52 weeks ended 26 January 2019).

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 25 January 2020, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. 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 Coronavirus pandemic in the UK, for the reasons set out below.

As at 25 January 2020, the Group had total assets less current liabilities of £5,904m net assets of £2,552m. Liquidity as at that date was £1.4bn, made up of cash and cash equivalents, short-term investments and undrawn committed credit facilities of £500m. Despite the Group's position at the end of the financial year, it is now clear that the increasing effects of Coronavirus will result in a material reduction in our expectations for revenue and profit for the next financial period ending 30 January 2021. In particular, across John Lewis, mainly due to the decrease in footfall in February and March 2020 followed by the closure of our branches from 24 March 2020, given the government's existing advice in respect of the requirement of the UK population to self-isolate. Waitrose, on the other hand, has seen no adverse impact with an increase in sales above our budget and business plan ('Plan') as a result of increased grocery spend. Both Waitrose stores and its online activities continue to operate given that they have been designated by the UK government as part of an 'essential industry'. Nevertheless, the full impact of the Coronavirus outbreak is unknown at this time and is unpredictable, and our key priority is the health and wellbeing of our Partners and customers, while we maintain our high standards of service.

Accordingly, the Directors have reviewed the rapidly evolving situation relating to Coronavirus and have modelled a series of 'downside case' scenarios that cover the period to 29 January 2022. These downside cases represent increasingly severe but plausible scenarios and include assumptions relating to the estimates of the impact of:

- the closure of John Lewis stores for a period of 12 weeks with continuing online activities, followed by reduced store and online trading of 33% against Plan for the remainder of the year; and
- the closure of John Lewis stores and cessation of online activities for a period of 24 weeks in the event that government advice in respect of self-isolation and social distancing was extended for a further period of time, followed by reduced store and online trading of up to 45% against Plan for the remainder of the year.

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.1 BASIS OF PREPARATION (CONTINUED)

Under both scenarios, it is assumed that:

- Waitrose remains operational in stores and online to a level of activity consistent with prior years notwithstanding that current levels of activity both in store and online are significantly ahead of last year. This is to ensure that the wider economic challenges of the virus over this period and beyond have been taken into consideration in the downside case modelling; and
- there is a £200m cash outflow in respect of working capital and other risks in the business.

These downside cases, whilst being considered by the Directors to be extremely prudent, have a significant adverse impact on sales, margin and cash flow. In response, the Directors have taken immediate and significant actions, all within management's control, to reduce costs and optimise the Group's cash flow and liquidity. Amongst these are the following mitigating actions: reducing capital and investment expenditure through postponing or pausing projects and change activity; deferring or cancelling discretionary spend; freezing non-essential recruitment and reducing marketing spend; and reducing the supply pipeline in general merchandise to reflect the impact of our temporary shop closures. In the most severe downside, Scenario B, this includes mitigations within the control of the Group covering the period to 29 January 2022 totalling £1.7bn.

The Group has £1.5bn in total liquidity available, at the date of approval of these financial statements, with £500m consisting of undrawn committed credit facilities of which £50m expires in March 2021 and the remaining £450m expires in November 2021. The Group has no other debt or facilities that mature prior to the £75m term loan that matures in November 2021 (see note 5.5). The Group's committed facilities contain one financial performance covenant, which is a profit based covenant ('Fixed Charge Cover').

The severe downside scenarios modelled by management indicate that the Fixed Charge Cover covenant relating to the undrawn committed credit facilities would breach due to the temporary reduction in profits. However, whilst the scenario indicates a breach, the same scenario indicates that post mitigating actions, the cash low point under such a scenario would be £400m and the facilities would remain undrawn. The Group would prefer to retain the option to utilise its facilities, therefore, covenant compliance will 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 Directors have assessed the Group's financial commitments and consider that, in the event of such a breach, in all downside cases, after taking into account cash generated from operations and existing facilities (but excluding the undrawn committed credit facilities), the business would have sufficient liquidity to continue to operate and to discharge its liabilities as they fall due.

The most severe downside, Scenario B as 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 year 1 performance as a result of Coronavirus and reduced trading performance across both brands for year 2, resulting in a pre-mitigation cash reduction against Plan in excess of £1.7bn. In order for the mitigations described above to be insufficient to maintain liquidity and covenant headroom, a further unbudgeted cost of £0.4bn would need to be incurred in 2020/21. Unprecedented uncertainty exists in respect of the potential impact of Coronavirus in 2020/21. We have made our assessment based on our best view of the severe but plausible downside scenarios 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 Scenario B) 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.

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.

1.1.2 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.

1.1.3 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 25 January 2020. 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.

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.3 SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

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 25 January 2020. 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 is liable in respect of those liabilities.

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR

The following policies have been consistently applied to all the years presented unless otherwise stated.
The following policy was adopted by the Group for the year ended 25 January 2020 and has had a significant impact on the Group's profit for the year, equity and disclosures:

IFRS 16 'Leases' (applicable for the period beginning 27 January 2019)

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases'. The Group has adopted IFRS 16 from 27 January 2019 using a modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 27 January 2019. The comparative information presented for the year ended 26 January 2019 has not been restated and therefore continues to be shown under IAS 17.
The main impact of IFRS 16 for the Group is the recognition of all future lease liabilities on the balance sheet. Corresponding right-of-use assets have also been recognised on the balance sheet representing the economic benefits of the Group's right to use the underlying leased assets. The Group's activities as a lessor are not material and therefore the Group has not recognised any changes to lessor accounting as a result of the transition to IFRS 16.

Definition of a lease

Previously the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease, as explained in note 5.6.
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.

Exemptions on transition to IFRS 16

On transition to IFRS 16, the Group has elected to apply the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets at the transition date;
- Using hindsight when determining the lease term where the contract contains options to break or renew; and
- For leases determined to be onerous before the transition date, relying on this assessment as an indicator of impairment as an alternative to performing an impairment review.

On transition to IFRS 16, the Group did not elect to grandfather the assessment of which contracts are leases.

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR (CONTINUED)

IAS 17 – Operating leases

For all periods prior to 27 January 2019, the Group classified the majority of its property leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term.
On transition to IFRS 16, the lease liabilities recognised were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 27 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 27 January 2019 was 5.1%.

IAS 17 – Finance leases

For all periods prior to 27 January 2019, the Group classified its vehicle and equipment leases as finance leases under IAS 17. These leases are on terms that transfer to the Group substantially all the risks and rewards of ownership. The accounting treatment for finance leases under IAS 17 is similar to the accounting treatment for leases under IFRS 16. Leased assets are capitalised at inception at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of the finance lease rentals is charged to the income statement and the capitalised leased assets are depreciated over the shorter of the estimated useful economic life of the asset or the lease term.

For finance leases the carrying amounts of the right-of-use assets and the lease liabilities on transition at 27 January 2019 were equal to the carrying amounts of the finance lease assets and finance lease liabilities recognised at the 26 January 2019 year-end under IAS 17.

The Group also previously held finance leases in relation to the building elements of a small number of long leasehold property leases. The land elements of these leases remained classified as operating leases under IAS 17. Under IFRS 16, there is no longer a distinction between operating and finance leases. As a result, these property leases have been remeasured on transition to account for the land and building elements as part of the same lease, with future lease payments discounted at the incremental borrowing rate applicable on 27 January 2019. The existing finance lease assets and finance lease liabilities in relation to these property leases have been written off to reserves on transition.

The following table presents the reconciliation of lease liabilities at 27 January 2019:

	£m
Minimum lease payments under non-cancellable operating leases at 26 January 2019	3,666.0
Minimum lease payments under non-cancellable finance leases at 26 January 2019	36.5
Discounted using the incremental borrowing rate at 27 January 2019	**2,090.1**
Assessment of lease term on transition	5.5
Leases recognised under IFRS 16, previously not identified as leases under IAS 17	3.5
Lease liabilities recognised at 27 January 2019	**2,099.1**

Transition

The opening balance sheet position as at 27 January 2019 has been restated on transition to IFRS 16. The Group recognised additional right-of-use assets, lease liabilities and deferred tax liabilities as well as a reduction in prepayments, deferred income, provisions and property, plant and equipment (including finance lease assets and the corresponding liabilities), recognising the difference in retained earnings. Comparative periods have not been restated.

	£m
Assets:	**Increase / (decrease)**
Property, plant and equipment	(10.0)
Right-of-use assets	1,943.0
Prepayments	(70.5)
Liabilities:	**(Increase) / decrease**
Lease liabilities – current	(87.7)
Lease liabilities – non-current	(2,011.4)
Finance lease liabilities – current	0.5
Finance lease liabilities – non-current	20.6
Deferred income – current	58.6
Deferred income – non-current	158.7
Deferred tax liabilities	(1.0)
Provisions	4.0
Equity:	**(Increase) / decrease**
Retained earnings	(4.8)

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.4 AMENDMENTS TO ACCOUNTING STANDARDS AND CHANGES FROM PRIOR YEAR (CONTINUED)

The following standards, amendments and interpretations were applicable for the period beginning 27 January 2019, and were adopted by the Group for the year ended 25 January 2020. They have not had a significant impact on the Group's profit for the year, equity or disclosures:

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation**
- **IFRIC 23: Uncertainty over Income Tax Treatments**
- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**
- **Annual Improvements to IFRS Standards 2015-2017 Cycle**

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 26 January 2020 onwards, which the Group has not adopted early:

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

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

The Group is also currently assessing the impact of the following new standard, which has been issued and is awaiting endorsement by the European Union:

- **IFRS 17: Insurance Contracts** (applicable for the period beginning 31 January 2021)

1.1.5 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.

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.

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

1.1 ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

1.1.6 CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

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 estimates and judgement
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

1.2 NON-GAAP MEASURES

1.2.1 GROSS SALES

Gross sales represents the amount receivable by the Group for goods and services supplied to customers. Gross sales includes the sale of stock purchased on a sale or return basis, VAT and adjustments for expected customer returns. Gross sales is net of any discount offered and revenue deferred in respect of free service guarantees. This measure shows the headline sales trend.

1.2.2 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.

For details of our exceptional items see note 2.5.

1.2.3 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.

1.2.4 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.

2 GROUP PERFORMANCE

IN THIS SECTION

This section focuses on our performance during the year ended 25 January 2020. 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 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, Waitrose, John Lewis and Group, 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 Partnership Board 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 liability is recorded for Partnership Bonus at the half year as the majority of the Group's profit and cash flows are earned in the second half of the year. Consequently, it is not possible to make a reliable estimate of the liability until the annual profit is known.*

A liability for the Partnership Bonus is included in the year-end accounts, with the amount confirmed by the Partnership Board shortly after the year-end.

It 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 and prior to the approval of the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.1 SEGMENTAL REPORTING (CONTINUED)

2020[1]	Waitrose £m	John Lewis £m	Group £m	Total £m
Gross sales	6,760.1	4,784.7	–	11,544.8
Adjustment for sale or return sales	–	(275.6)	–	(275.6)
Value added tax	(390.4)	(727.5)	–	(1,117.9)
Revenue	6,369.7	3,781.6	–	10,151.3
Operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property[2]	226.3	63.0	(78.2)	211.1
Net profit on sale of property[3]	16.2	1.0	1.8	19.0
Operating profit/(loss) before exceptional items and Partnership Bonus	242.5	64.0	(76.4)	230.1
Exceptional items	(30.6)	(101.0)	239.0	107.4
Operating profit/(loss) before Partnership Bonus	211.9	(37.0)	162.6	337.5
Finance costs				(175.0)
Finance income				13.7
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, exceptional items and IFRS 16 to profit before tax:				
Profit before Partnership Bonus, tax, exceptional items and IFRS 16[4]				121.5
Partnership Bonus				(30.9)
IFRS 16 adjustment[4]				(52.7)
Exceptional items				107.4
Profit before tax				145.3
Segment assets	3,980.7	2,595.9	1,184.2	7,760.8
Segment liabilities	(2,126.7)	(1,539.9)	(1,541.7)	(5,208.3)
Net assets	1,854.0	1,056.0	(357.5)	2,552.5
Other segment items:				
– Depreciation[5]	(229.5)	(282.1)	(6.1)	(517.7)
– Amortisation[5]	(35.4)	(78.1)	(25.5)	(139.0)
– Capital expenditure – property, plant and equipment	51.7	89.6	48.5	189.8
– Capital expenditure – intangible assets	59.1	50.6	27.9	137.6
– (Decrease)/increase in provisions	(3.3)	(11.8)	21.6	6.5

[1] The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets (£1.9bn on transition) in relation to the Group's lease liabilities (£2.1bn on transition). These assets and liabilities are included in the results of the individual reporting segments presented above as at 25 January 2020. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1.1.4).
[2] Included within operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property is £0.2m (2019: £0.7m) share of loss of a joint venture in John Lewis. See note 3.3.
[3] Net profit on sale of property includes losses of £nil in Waitrose (2019: £0.9m), £nil in Group (2019: £0.5m), and £nil in John Lewis (2019: £0.1m).
[4] For a detailed definition, see page 4.
[5] Includes net charges for impairment. See notes 3.1 and 3.2.

2.1 SEGMENTAL REPORTING (CONTINUED)

2019	Waitrose £m	John Lewis £m	Group £m	Total £m
Gross sales	6,835.0	4,889.1	–	11,724.1
Adjustment for sale or return sales	–	(259.0)	–	(259.0)
Value added tax	(405.5)	(742.9)	–	(1,148.4)
Revenue	6,429.5	3,887.2	–	10,316.7
Operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property[1]	202.5	113.4	(93.8)	222.1
Net profit on sale of property[2]	0.7	1.3	0.9	2.9
Operating profit/(loss) before exceptional items and Partnership Bonus	203.2	114.7	(92.9)	225.0
Exceptional items	(4.0)	(22.1)	28.2	2.1
Operating profit/(loss) before Partnership Bonus	199.2	92.6	(64.7)	227.1
Finance costs				(80.3)
Finance income				13.6
Partnership Bonus				(44.7)
Profit before tax				115.7
Taxation				(39.7)
Profit for the year				76.0
Reconciliation of Profit before Partnership Bonus, tax and exceptional items to Profit before tax:				
Profit before Partnership Bonus, tax and exceptional items				158.3
Partnership Bonus				(44.7)
Exceptional items				2.1
Profit before tax				115.7
Segment assets	2,839.8	2,105.7	1,366.6	6,312.1
Segment liabilities	(793.7)	(877.3)	(2,026.6)	(3,697.6)
Net assets	2,046.1	1,228.4	(660.0)	2,614.5
Other segment items:				
– Depreciation[3]	(153.3)	(119.6)	(14.6)	(287.5)
– Amortisation[3]	(32.3)	(61.3)	(29.3)	(122.9)
– Capital expenditure – property, plant and equipment	93.0	61.3	9.8	164.1
– Capital expenditure – intangible assets	52.8	65.6	39.7	158.1
– Decrease in provisions	(3.8)	(7.9)	(31.9)	(43.6)

[1] Included within operating profit/(loss) before exceptional items, Partnership Bonus and net profit on sale of property is a £0.7m share of loss of a joint venture in John Lewis. See note 3.3.
[2] Net profit on sale of property includes losses of £0.9m in Waitrose, £0.5m in Group, and £0.1m in John Lewis.
[3] Includes net charges for impairment. See notes 3.1 and 3.2.

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 service guarantees 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 Electricals and Home Technology (EHT). Services comprise free service guarantees on selected goods. This presentation is consistent with how our Partnership Board and Divisional Management Boards reviewed performance throughout the year.

Major product lines	**2020 £m**	2019 £m
Goods		
– Grocery	**6,369.7**	6,429.5
– Home	**1,052.7**	1,085.8
– Fashion	**1,216.5**	1,215.7
– EHT	**1,350.8**	1,393.6
Services		
– Free service guarantee	**26.8**	41.3
Other revenue	**134.8**	150.8
	10,151.3	10,316.7

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	Grocery products are principally sold by Waitrose and include food, drink, household and other items. Additionally, fuel sales are shown here. Customers obtain control of grocery products when the goods are received by the customer. Customers pay at the point of sale in Waitrose stores. Where a grocery product is ordered online, it is fulfilled by a Waitrose store and customers are charged on the day of delivery. For business to business (B2B) customers, invoices are raised and are usually payable within 30 days. 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.	Revenue is recognised when the goods have been received by the customer and control obtained. 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.
Home	Home products are principally sold by John Lewis and include items intended for use in the home environment. Customers obtain control of home products when the goods are received by the customer. Customers pay at the point of sale in John Lewis stores. Where a home product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. 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.	Revenue is recognised when the goods have been received by the customer and control obtained. 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.
Fashion	Fashion products are principally sold by John Lewis and include clothing, jewellery and other items. This also includes ‘sale or return’ sales. Customers obtain control of fashion products when the goods are received by the customer. Customers pay at the point of sale in John Lewis stores. Where a fashion product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. 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.	Revenue is recognised when the goods have been received by the customer and control obtained. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.2 REVENUE (CONTINUED)

2.2.2 REVENUE RECOGNITION POLICIES (CONTINUED)

Electricals and Home Technology (EHT)	EHT products are principally sold by John Lewis and include televisions, computers, tablets and other electrical items. Customers obtain control of EHT products when the goods are received by the customer. Customers pay at the point of sale in John Lewis stores. Where an EHT product is ordered online, it is generally fulfilled from a centralised location. For B2B customers, invoices are raised and are payable on a variety of payment terms up to 30 days. 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.	Revenue is recognised when the goods have been received by the customer. When EHT products are sold with a free service guarantee, an element of the sales price is allocated to the performance of that service (see below). 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.
Free service guarantee	The free service guarantee is provided with certain EHT products which are sold by John Lewis. Customers receive a free service guarantee of between two and five years on the purchase of specified EHT products. No separate payment is made for the free service guarantee. An element of the sales price of the EHT 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. The deferred income is released to the income statement over the period of the guarantee on a straight-line basis.	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. Deferred income is shown under trade and other payables. See note 4.3.
Other revenue	Other revenue products/services are principally sold by John Lewis and include catering, customer delivery and products from food halls and workrooms. Other revenue also includes non-redemption revenue relating to gift vouchers and gift cards that are never redeemed or expire unredeemed. Customers obtain control of other revenue products/services when the products/services have been rendered and the performance obligations have been met. Customers pay at the point of sale in John Lewis stores. Where other revenue products/services are ordered online, these are generally fulfilled from a centralised location.	Revenue is recognised when the products/services have been received by the customer and the performance obligations have been met. 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.

2.3 OTHER OPERATING INCOME

ACCOUNTING POLICIES

Other operating income includes:

Commissions: Commissions are 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.

Other operating income	2020 £m	2019 £m
Commissions	**80.7**	64.7
Rental income	**8.6**	7.6
Licence fees	**2.7**	2.7
Other income	**33.1**	37.1
	125.1	112.1

Other income mainly relates to car parking income, backhauling, concession income and compensation for loss of profit under landlord commercial agreements where development work has impacted branch sales. 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

Operating expenses before exceptional items and Partnership Bonus	2020 £m	2019 £m
Branch operating expenses	**(2,190.4)**	(2,198.1)
Administrative expenses	**(1,066.5)**	(1,074.0)
	(3,256.9)	(3,272.1)

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 1.2.2). 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.

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.

2.5 EXCEPTIONAL ITEMS (CONTINUED)

Exceptional items	2020 Operating (expense) / income £m	2020 Taxation credit/ (charge) £m	2019 Operating (expense)/ income £m	2019 Taxation credit/ (charge) £m
Strategic restructuring and redundancy programmes				
Head office reviews	**(35.6)**	**6.6**	(19.3)	3.7
Physical estate	**(27.4)**	**6.2**	(5.1)	1.5
Shop operations	**(0.7)**	**0.1**	(6.7)	1.3
	(63.7)	**12.9**	(31.1)	6.5
Branch impairments (Waitrose)	**13.3**	**(1.7)**	–	–
Branch impairments (John Lewis)	**(110.3)**	**13.9**	(12.6)	1.2
John Lewis supply chain	**9.1**	**(0.8)**	0.5	(0.1)
Pay provision	–	–	30.3	(5.6)
Legal settlement	**10.0**	**(1.9)**	15.0	(2.9)
Pension closure	**249.0**	**(42.3)**	–	–
	107.4	**(19.9)**	2.1	(0.9)

Strategic restructuring and redundancy programmes

The Group is currently undergoing an unprecedented level of internal change. Over the past three years, we have accelerated our strategic transformation programme in order to ensure the Group's success over the long-term. We anticipated last year that as we move closer to delivering our strategic vision, transformation programmes in other areas may be required. We announced in October 2019 a bold and ambitious plan to further transform our business for the future as part of Future Partnership. With a new Leadership now in place a Strategic Review was launched in March 2020, which will consider how we further develop our existing services and products as well as new services outside of retail. The scale of the changes to date and the programme of activity that will follow will take a number of years to deliver, with costs expected to recur across a number of financial years. Over the life of the strategic transformation programme they are significant in value and given the level of change, they are significant in nature and therefore the Group considers them exceptional items. The financial impact of these for 2020 is detailed below:

Head office**:** The transformation of Group functions and other head office operations continues at pace. The main focus includes reviews of a number of functions which began at the end of 2017. Given the scale of the change, the delivery of these was expected to take four years, and is now well progressed, but further costs are expected over at least the next two years as we finalise the reviews of the remaining functions. These timescales are to be reassessed as a result of the ongoing uncertainty and volatility relating to Coronavirus. In 2020 we have incurred costs of £35.6m (2019: £19.3m) in relation to these reviews. The charge includes project costs, onerous contracts and where announced, redundancy costs.

Physical estate**:** We have continued with our programme of optimising our existing estate, and as highlighted in the Strategic Report (pages 4 - 8), this continues to be a key part of our strategy. This includes ensuring that the size and shape of our physical estate is delivering on both our customer proposition, and financial returns. We expect this programme, which commenced in 2017, and the associated costs and incomes to take a total of approximately five years to deliver. This year we have recognised a net exceptional charge of £27.4m (2019: £5.1m). 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. Where income in relation to previously estimated costs have been realised in the year, these have been shown net, reflecting that the original expenses were shown as exceptional.

Shop operations**:** Alongside the review of our physical estate, we also identified that the way in which we run and manage our stores would require adjustment. In order to improve the customer experience and efficiencies in the way we run our stores, we have made a number of changes in our shop operating models. This has included reviewing store management structures, the centralisation of certain functions, aligning regional offerings in order to deliver a more flexible, multi-skilled and productive model. This review is now largely complete with costs of £0.7m (2019: £6.7m) recognised this year. The charge in the current year principally includes redundancy costs as specific elements of our shop operating models are restructured.

Included within operating expenses are £1.5m (2019: £12.7m) 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.

2.5 EXCEPTIONAL ITEMS (CONTINUED)

Branch impairments (Waitrose)

In 2020, a credit of £13.3m has been released as a result of improved branch performance for branch impairment previously charged as exceptional.

Branch impairment (John Lewis)

There is an impairment charge in John Lewis of £122.9m in the year. The charge is principally due to challenging trading conditions combined with management's reassessment of the role that shops play in driving online purchases, as a result of changing customer shopping behaviour. This has led to a reduction in the percentage of online sales allocated to branches as part of the impairment assessment. The circumstances giving rise to the charge are deemed unusual, related to factors other than trading and unlikely to recur on a similarly significant scale in the medium term. Given the nature of the exercise and the size of the charge, it has been treated as exceptional. The level of impairment was judged before the impact of Coronavirus materialised. We expect a significant event such as Coronavirus to have a material impact on the level of our impairment in the future. See note 8.3.1 for further detail.

In addition, the £12.6m impairment charge recognised in 2019 following the signing of an amended lease contract, has been released in 2020 due to a change in circumstances.

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 (2019: £0.5m releases), principally in relation to property disposals.

Pay provision

In 2017, a £36.0m provision was recorded as an exceptional charge to cover the potential costs of complying with the National Minimum Wage Regulations. During 2018, the methodology for calculating the liability was clarified and the project finalised, resulting in a £30.3m release of the provision. There is no pay provision charge in the year to 25 January 2020.

Legal settlement

The Group reached a settlement in relation to an ongoing legal dispute, receiving income of £10.0m (2019: £15.0m). Due to the size and nature of this settlement, this income has been recognised as exceptional.

Pension closure

Following the decision by Partnership Council on 15 May 2019 to close the Partnership's defined benefit section of the pension scheme to future accrual from April 2020, a past service credit of £249.0m has been 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 has been recognised as exceptional.

2.6 PROFIT BEFORE TAX

	2020 £m	2019 £m
Staff costs (note 2.8.2)	**(1,614.0)**	(1,863.2)
Depreciation[1]	**(517.7)**	(287.5)
Amortisation of intangible assets[2]	**(139.0)**	(122.9)
Net profit on sale of property (including exceptional items)	**42.7**	3.9
Net loss on disposal of other plant and equipment and intangible assets	**(4.2)**	(3.8)
Inventory – cost of inventory recognised as an expense	**(6,789.2)**	(6,931.0)
Operating lease rentals:		
– Land and buildings [3]	**(5.5)**	(190.7)
– Plant and machinery [4]	**(2.6)**	(1.3)
Sub-lease income:		
– Land and buildings	**5.7**	5.7

[1] Included within depreciation is an impairment charge of £99.4m (2019: £18.6m) of which £7.5m (2019: £6.0m) is in Waitrose and £91.9m (2019: £12.6m) is in John Lewis.
[2] Included within amortisation of intangible assets is an impairment charge of £16.4m (2019: £2.0m) of which £2.9m (2019: £0.2m) is in Waitrose, £2.4m (2019: £nil) is in John Lewis and £11.1m (2019: £1.8m) is in Group.
[3] Since transition to IFRS 16 on 27 January 2019, only lease rentals in relation to land and buildings that are contingent rents have been charged to the income statement. Contingent rents are determined based on store revenues. The equivalent IAS 17 operating lease rentals charge for 2020 would have been £190.2m. Contingent rents for 2019 were £2.2m.
[4] Since transition to IFRS 16 on 27 January 2019, only lease rentals in relation to plant and machinery that are low value assets or have short-term leases have been charged to the income statement. The equivalent IAS 17 operating lease rentals charge for 2020 would have been £3.4m.

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

Auditor's remuneration	2020 £m	2019 £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	**(0.6)**	(0.6)
	(1.0)	(1.0)
Non-audit services:		
– Other assurance services	**(0.1)**	(0.1)
	(0.1)	(0.1)
Total fees	**(1.1)**	(1.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.7 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

	2020[1] £m	2019 £m
Profit before tax	**145.3**	115.7
Amortisation and write-offs of intangible assets[2]	**151.7**	141.7
Depreciation[3]	**517.7**	287.5
Share of loss of joint venture (net of tax)	**0.2**	0.7
Net finance costs	**161.3**	66.7
Partnership Bonus	**30.9**	44.7
Fair value losses on derivative financial instruments	**0.3**	2.1
(Profit)/loss on disposal of property, plant and equipment and intangible assets	**(37.1)**	1.4
Decrease in inventories	**45.8**	3.9
(Increase)/decrease in receivables	**(31.4)**	8.3
Decrease in payables	**(39.5)**	(60.5)
(Decrease)/increase in retirement benefit obligations	**(238.4)**	29.6
Decrease in provisions	**(8.1)**	(46.8)
Cash generated from operations before Partnership Bonus	**698.7**	595.0

[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. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognises depreciation and interest costs, instead of an operating lease expense (see note 1.1.4). During the year, the Group recognised £134.7m of depreciation charges and £103.5m of additional interest costs in relation to those leases (see page 4 for further detail).

[2] Includes net impairment charges. See note 3.1.

[3] Includes net impairment charges. See note 3.2.

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:

	2020	2019
John Lewis	**27,200**	28,100
Waitrose	**51,300**	52,400
Group	**3,300**	3,200
	81,800	83,700

2.8.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2020 £m	2019 £m
Staff costs:		
Wages and salaries	**(1,506.0)**	(1,480.0)
Social security costs	**(120.8)**	(110.5)
Partnership Bonus	**(27.5)**	(39.8)
Employers' National Insurance on Partnership Bonus	**(3.4)**	(4.9)
Other pension credit/(charge) (note 6.1.2)	**45.0**	(219.1)
Long leave cost	**(1.3)**	(8.9)
Total before Partner discounts	**(1,614.0)**	(1,863.2)
Partner discounts (excluded from revenue)	**(74.3)**	(76.2)
	(1,688.3)	(1,939.4)

2.8.3 KEY MANAGEMENT COMPENSATION

	2020 £m	2019 £m
Salaries and short-term benefits	**(11.6)**	(13.2)
Post-employment benefits[1]	**(2.2)**	(2.4)
Termination benefits[2]	**(4.4)**	–
	(18.2)	(15.6)

[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 Partnership's Divisional Management Boards 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 Partnership'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.8 PARTNERS (CONTINUED)

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 Partnership's Remuneration Committee report noted as audited on pages 78 to 79 of the Partnership's Annual Report and Accounts.

	2020 **£m**	2019 £m
Aggregate emoluments	**(4.7)**	(4.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

ACCOUNTING POLICY

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.

2.9.1 ANALYSIS OF TAX CHARGE FOR THE YEAR

Tax (charged)/credited to the income statement	2020 £m	2019 £m
Current tax – current year	**(17.6)**	(45.8)
Current tax – adjustment in respect of prior years	**(3.5)**	2.3
Current tax on IFRS 15 restatement	–	2.5
Total current tax charge	**(21.1)**	(41.0)
Deferred tax – current year	**(24.1)**	5.1
Deferred tax – rate change	**4.5**	–
Deferred tax – adjustment in respect of prior years	**3.0**	(1.3)
Deferred tax on IFRS 15 restatement	–	(2.5)
Total deferred tax (charge)/credit	**(16.6)**	1.3
	(37.7)	(39.7)

Tax credited/(charged) to other comprehensive income	2020 £m	2019 £m
Current tax on pension scheme[1]	**2.5**	7.1
Total current tax credit	**2.5**	7.1
Deferred tax on pension scheme	**30.4**	(55.3)
Deferred tax on cash flow hedges	**3.2**	(4.1)
Total deferred tax credit/(charge)	**33.6**	(59.4)
	36.1	(52.3)

1 An additional deficit funding contribution of £12.8m has been paid by the Group during the year (2019: £37.1m) in relation to the defined benefit pension scheme, resulting in a tax credit of £2.5m (2019: £7.1m) to the statement of other comprehensive income/(expense) and a corresponding reduction in our current tax liability.

2.9 TAXATION (CONTINUED)

2.9.2 FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax charge for the year is higher (2019: higher) than the standard corporation tax rate of 19.0% (2019: 19.0%). The differences are explained below:

	2020 £m	2019 £m
Profit before tax	**145.3**	115.7
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2019: 19.0%)	**(27.6)**	(22.0)
Effects of:		
Changes in tax rate	**4.5**	–
Adjustment in respect of prior years	**(0.5)**	1.0
Depreciation on assets not qualifying for tax relief	**(23.1)**	(14.4)
Difference between accounting and tax base for land and buildings	**11.6**	(2.0)
Differences in overseas tax rates	**0.4**	(0.1)
Sundry disallowables	**(3.0)**	(2.2)
Total tax charge	**(37.7)**	(39.7)
Effective tax rate (%)	**25.9**	34.3

2.9.3 DEFERRED TAX

Deferred tax is calculated on temporary differences using a rate of 19.0% where assets or liabilities were expected to reverse during the accounting period to 25 January 2020, 17.33% for those expected to reverse during the accounting period to 30 January 2021 and 17.0% for those expected to reverse in later periods. The movement on the deferred tax account is shown below:

The movement on the deferred tax account is shown below:

Deferred tax	**2020 £m**	2019 £m
Opening net (liability)/asset	**(36.2)**	21.9
Adjustment on initial application of IFRS 16[1]	**(1.0)**	–
Adjusted opening net (liability)/asset	**(37.2)**	21.9
(Charged)/credited to income statement	**(16.6)**	1.3
Credited/(charged) to other comprehensive income/(expense)	**33.6**	(59.4)
Closing net liability	**(20.2)**	(36.2)

[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. As a result, the Group recognised a deferred tax liability of £1.0m in relation to this adjustment to retained earnings (see note 1.1.4).

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 27 January 2018	(98.9)	(8.3)	(38.3)	–	(145.5)
Credited to income statement	7.3	0.3	–	–	7.6
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)**

[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. As a result, the Group recognised a deferred tax liability of £1.0m in relation to this adjustment to retained earnings (see note 1.1.4).

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 27 January 2018	14.2	141.0	12.2	167.4
(Charged)/credited to income statement	(3.1)	0.7	(3.9)	(6.3)
Charged to other comprehensive income/(expense)	–	(55.3)	(4.1)	(59.4)
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**

The deferred tax asset in relation to the defined benefit pension scheme is £53.7m (2019: £63.3m).

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	**2020 £m**	2019 £m
Deferred tax assets	**0.2**	–
Deferred tax liabilities	**(20.4)**	(36.2)
Deferred tax net	**(20.2)**	(36.2)

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. There are unrecognised deferred tax assets in respect of losses for the year ended 25 January 2020 relating to losses in John Lewis Hong Kong Limited of £0.8m (2019: £0.7m).

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).

2.9 TAXATION (CONTINUED)

2.9.3 DEFERRED TAX (CONTINUED)

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

Legislation has been enacted (Finance Act 2016) to reduce the corporation tax rate from 19.0% to 17.0% from 1 April 2020. However the Government announced in the Spring Budget on 11 March 2020 that the corporation tax rate will remain at 19.0%. At the balance sheet date legislation had not yet been amended and therefore the substantively enacted rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods overlapping 1 April 2020 and later remains at 17.0%.

If the corporation tax rate of 19% had been substantively enacted as at 25 January 2020 the deferred tax movement would have been as follows:

	2020 £m
Opening net liability	**(36.2)**
Adjustment on initial application of IFRS 16[1]	**(1.0)**
Adjusted opening net liability	**(37.2)**
Charged to income statement	**(26.9)**
Credited to other comprehensive income/(expense)	**42.6**
Closing net liability	**(21.5)**

[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. As a result, the Group recognised a deferred tax liability of £1.0m in relation to this adjustment to retained earnings (see note 1.1.4).

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 and goodwill, 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 AND GOODWILL

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 3 and 10 years. The assets' useful economic lives are reviewed and adjusted if appropriate at each balance sheet date.*

Goodwill: *Goodwill arises on consolidation and represents the surplus of fair value of the amount paid for a business (or company) less the fair value of the net assets acquired (assets, liabilities and contingent liabilities). Goodwill is not amortised but subject to annual impairment testing. Revisions to goodwill are accounted for in the same manner as the original goodwill.*

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.*

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 asset 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.*

3.1 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	Goodwill	Computer software			
Intangible assets and goodwill	£m	Purchased £m	Internally developed £m	Work in progress £m	Total £m
Cost					
At 27 January 2018	–	213.4	502.7	239.1	955.2
Additions [1]	1.1	–	–	157.0	158.1
Transfers	–	46.9	194.2	(241.1)	–
Disposals and write-offs	(1.1)	(8.6)	(19.5)	(17.7)	(46.9)
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**
Accumulated amortisation					
At 27 January 2018	–	(142.4)	(317.1)	–	(459.5)
Charge for the year [2]	–	(43.4)	(79.5)	–	(122.9)
Disposals and write-offs	–	8.6	19.5	–	28.1
At 26 January 2019	–	(177.2)	(377.1)	–	(554.3)
Charge for the year [2]	–	(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)**
Net book value at January 2018	–	71.0	185.6	239.1	495.7
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**

[1] For the year ended 25 January 2020, additions for the year include the non-cash capital expenditure accrual on intangible assets of £1.9m (2019: £7.1m).
[2] For the year ended 25 January 2020, this includes an impairment charge of £16.4m (2019: £2.0m) to intangible assets of which £2.9m (2019: £0.2m) is in Waitrose, £2.4m (2019: £nil) is in John Lewis and £11.1m (2019: £1.8m) is in Group.

Intangible assets principally relate to customer and distribution projects with useful economic lives of up to 10 years.

There are four individually significant assets within the total carrying amount of intangible assets as at 25 January 2020: two are customer projects (£134.0m, 2019: £139.0m) and two relate to distribution projects (£127.2m, 2019: £126.2m).

During the year to 25 January 2020, computer systems valued at £141.2m (2019: £241.1m) were brought into use. This covered a range of selling, support, supply chain, administration and information technology infrastructure applications, with asset lives ranging from 3 to 10 years.

Amortisation of intangible assets is charged within operating expenses.

Goodwill relates to the surplus of consideration over the assets and liabilities acquired as part of the acquisition of the trade of Opun Group Limited on 1 June 2018. This was subsequently written off in full during 2019.

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 in to 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, 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.*

Other assets: *Other assets are held at cost.*

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 (UELs):*

- ***Freehold and long leasehold buildings – 25 to 50 years***
- ***Other leasehold buildings – over the shorter of the useful economic life or the remaining period of the lease***
- ***Building fixtures – 10 to 40 years***
- ***Fixtures, fittings and equipment (including vehicles and information technology equipment) – 3 to 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 economic lives are reviewed and adjusted if appropriate at least 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 branches including an allocation of online, 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.*
Where 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.

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 have 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 life. This residual value could be realised through a sale of the property or a subletting arrangement. Management have 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 continued 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 store 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 cashflows of John Lewis stores to reflect the role that the stores play. The allocation is based on customer sales data, online shopping behaviour and physical touchpoints with a store including Click & Collect, store assisted online purchases and customers with a history of omni-channel shopping. 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 stores to better reflect this trend. The proportion of online sales allocated to stores 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.*

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 27 January 2018	4,643.3	1,919.2	81.0	6,643.5
Additions[1]	2.9	–	161.2	164.1
Transfers	89.1	99.0	(188.1)	–
Disposals and write-offs	(31.4)	(69.8)	(1.1)	(102.3)
Transfers to assets held for sale	(77.7)	–	–	(77.7)
At 26 January 2019	4,626.2	1,948.4	53.0	6,627.6
Adjustment on initial application of IFRS 16[2]	(23.1)	–	–	(23.1)
At 27 January 2019	4,603.1	1,948.4	53.0	6,604.5
Additions[1]	–	–	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**
Accumulated depreciation				
At 27 January 2018	(1,316.1)	(1,356.2)	–	(2,672.3)
Charge for the year[4]	(142.4)	(145.1)	–	(287.5)
Disposals and write-offs	19.8	67.5	–	87.3
Transfers to assets held for sale	54.6	–	–	54.6
At 26 January 2019	(1,384.1)	(1,433.8)	–	(2,817.9)
Adjustment on initial application of IFRS 16[2]	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)
Net book value at January 2018	3,327.2	563.0	81.0	3,971.2
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**

1 For the year ended 25 January 2020, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £26.6m (2019: £28.7m).

2 The Group has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in place of finance lease assets. As a result, at 27 January 2019, land and building assets held under finance leases with a net book value of £14.6m have been reallocated and recognised as right-of-use assets. A further (£4.6m) of lease inducements has also been reclassified to right-of-use assets on transition to IFRS 16. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1.1.4).

3 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. This is offset by properties with 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 25 January 2020, this includes an impairment charge of £85.3m to land and buildings (2019: £18.6m) and £14.1m to fixtures and fittings (2019: £nil).

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

Right-of-use assets	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
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**
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)
Net book value at January 2018	–	–	–
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**

1 The Group has initially applied IFRS 16 at 27 January 2019, which requires the recognition of right-of-use assets in relation to the Group's lease liabilities'. As a result, at 27 January 2019, the Group recognised £1,943.0m of right-of-use assets related to those lease liabilities. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 1.1.4).
2 For the year ended 25 January 2020, this includes an impairment charge of £18.4m (2019: £nil).

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 calculations are the discount rate, long-term growth rate, allocation of online sales (John Lewis), expected sales performance and costs.

The value in use calculation is based on three-year cash flow projections using the latest budget and forecast data. In John Lewis, different growth expectations are applied to online and store 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 three-year period using a long-term growth rate of 1.5% for Waitrose and 0.5% for John Lewis; the different rates reflect the different expectations of growth in grocery and general merchandise. A pre-tax discount rate of 7% for Waitrose (2019: 8%) and 7% for John Lewis (2019: 8%) has been used, calculated by reference to the Group's Weighted Average Cost of Capital (WACC) which now includes Group lease debt under IFRS16.

The impairment review performed considers the value in use calculation based on the above methodology and assumptions, as well as other potential impairment triggers such as strategy changes. Following the impairment review, the Group recognised a net impairment charge across property, plant and equipment and right-of-use assets of £117.8m; £7.5m in Waitrose and £110.3m in John Lewis. This includes impairment charges and releases that are recognised as exceptional.

The Waitrose charge is a net charge and includes releases of previous impairment charges following the exit of previously impaired stores and impairment reversals due to improved store performance which has been judged to be sustainable. These reversals have been offset by new impairment charges, principally relating to stores approved for closure. The John Lewis impairment charge arises from challenging trading conditions and a reassessment of the role that shops play in driving online purchases as a result of changing customer shopping behaviour. This has led to a reduction in the percentage of online sales allocated to branches as part of the impairment assessment. The resulting charge has been offset by a credit of £12.6m, originally arising in 2018/19 following the signing of a lease contract and released following a change in circumstances.

The Waitrose impairment estimation is most sensitive to a change in the long-term growth rate. Reducing the long-term growth rate to nil would reduce the impairment release to £(3.9)m. The John Lewis impairment estimation is most sensitive to margin assumptions and the judgement on the allocation of online sales to CGUs. Online sales allocation is subject to changes in customer behaviour and buying habits, and as such this assumption is also subject to significant estimation uncertainty. A change in the online sales allocated by +/- 500bps would result in an impairment movement of approximately £27.8m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Headroom outcomes are specific to each CGU and therefore vary on a store-by-store basis. Variations arise from differences in revenue and cost profiles by branch and their specific net book values. Whilst some CGUs could and do reduce to a nil headroom, other CGUs reach a headroom which represents that store's fair value less cost to dispose.

3.3 INVESTMENT IN AND LOANS TO JOINT VENTURE

ACCOUNTING POLICY

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 27 January 2018	2.1	1.5	3.6
Additions	–	0.5	0.5
At 26 January 2019	2.1	2.0	4.1
Additions	–	–	–
At 25 January 2020	**2.1**	**2.0**	**4.1**
Share of loss			
At 27 January 2018	(0.7)	–	(0.7)
Share of loss	(0.7)	–	(0.7)
At 26 January 2019	(1.4)	–	(1.4)
Share of loss	(0.2)	–	(0.2)
At 25 January 2020	**(1.6)**	**–**	**(1.6)**
At 27 January 2018	1.4	1.5	2.9
At 26 January 2019	0.7	2.0	2.7
At 25 January 2020	**0.5**	**2.0**	**2.5**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3.4 ASSETS HELD FOR SALE

At 25 January 2020, three property assets in Waitrose were recorded as held for sale with a total carrying value of £1.5m. Two of these properties have been sold since the year-end and the remaining one is expected to complete within the next 12 months.

At 26 January 2019, five property assets in Waitrose (£13.7m) and one in John Lewis (£9.4m) were recorded as held for sale with a total carrying value of £23.1m.

3.5 COMMITMENTS AND CONTINGENCIES

At 25 January 2020, contracts had been entered into for future capital expenditure of £20.2m (2019: £44.1m) of which £14.3m (2019: £33.0m) relates to property, plant and equipment and £5.9m (2019: £11.1m) relates to intangible assets.

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 POLICY

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	**2020** **£m**	2019 £m
Raw materials	**3.2**	3.6
Work in progress	**0.3**	0.1
Finished goods and goods for resale	**609.4**	653.9
	612.9	657.6

Provisions against inventories of £22.8m were charged (2019: £27.7m charged) to branch cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £16.9m (2019: £20.0m). 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.

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.

4.2 TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade and other receivables	2020 £m	2019 £m
Current:		
Trade receivables	**85.3**	74.5
Other receivables[1]	**101.4**	39.1
Prepayments[2]	**88.7**	110.6
Accrued income	**45.6**	35.1
	321.0	259.3
Non-current:		
Other receivables	**16.0**	16.2
Prepayments[2]	**0.5**	42.2
	16.5	58.4

1 The Partnership 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 Partnership (see note 8.2.3). Included within other receivables is a balance of £60.1m due from John Lewis Partnership Trust Limited in relation to SIP shares in issue but not allocated to Partners. In 2019, this balance was shown net within amounts owed to parent company (2019: £45.7m) (see note 4.3).

2 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 (see note 1.1.4).

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 £13.4m (2019: £12.7m) in relation to supplier income which has not yet been invoiced. Additionally, accrued income includes £21.8m (2019: £20.5m) 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 disclosure 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 25 January 2020, trade and other receivables of £1.5m (2019: £4.0m) were partially or fully impaired. As at 25 January 2020, trade and other receivables of £35.2m (2019: £23.3m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

Ageing analysis	2020 £m	2019 £m
Up to 3 months past due	**33.2**	22.9
3 to 12 months past due	**1.3**	0.4
Over 12 months past due	**0.7**	–
	35.2	23.3

4.3 TRADE AND OTHER PAYABLES

ACCOUNTING POLICY

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 service guarantees for EHT products. The Group allocates a portion of the consideration received for the EHT product to the free service guarantee on a cost plus margin basis. The amount allocated to the free service guarantee is deferred and recognised as revenue over the period of the guarantee on a straight-line basis.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4.3 TRADE AND OTHER PAYABLES (CONTINUED)

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 service guarantees, deferred income is based on the expected future repair or replacement costs for all goods sold with a free service guarantee, 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	**2020 £m**	2019 £m
Current:		
Trade payables	**(915.6)**	(919.7)
Amounts owing to parent undertakings[1]	**(111.6)**	(65.3)
Other payables	**(158.5)**	(178.7)
Other taxation and social security	**(169.3)**	(178.4)
Accruals	**(159.1)**	(189.9)
Deferred income[2]	**(83.5)**	(89.0)
Partnership Bonus	**(27.6)**	(39.7)
	(1,625.2)	(1,660.7)
Non-current:		
Other payables	**(0.1)**	(0.2)
Deferred income[2]	**(46.7)**	(258.4)
	(46.8)	(258.6)

1 The Partnership 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 Partnership (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 £60.1m 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 £44.1m relates to SIP shares held directly by Partners. In 2019, this balance was shown net and included only amounts in relation to SIP shares held directly by Partners (2019: £58.5m).

2 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 (see note 1.1.4).

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

Deferred income primarily relates to free service guarantees. During the year an amount of £26.8m (2019: £41.3m) was released to the income statement. The deferral for the year was £19.2m (2019: £25.6m). The year-end position of free service guarantees is £42.4m (2019: £50.0m). The remaining balance in deferred income relates to goods and services sold but not yet delivered. In 2019, the balance also included lease incentives which have been subsequently been reclassified to right-of-use assets on transition to IFRS 16 as at 27 January 2019 (see note 1.1.4).

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 26 January 2019	(141.8)	(34.3)	(24.9)	(24.5)	(21.5)	(247.0)
Adjustment on initial application of IFRS 16[1]	–	–	–	–	4.0	4.0
At 27 January 2019	(141.8)	(34.3)	(24.9)	(24.5)	(17.5)	(243.0)
Charged to income statement	(27.2)	(28.8)	(7.9)	(51.9)	(12.5)	(128.3)
Released to income statement	7.3	–	1.4	12.7	2.1	23.5
Utilised	8.2	34.3	6.1	41.8	3.9	94.3
At 25 January 2020	**(153.5)**	**(28.8)**	**(25.3)**	**(21.9)**	**(24.0)**	**(253.5)**
Of which:						
Current	(34.5)	(28.8)	(9.9)	(21.9)	(13.5)	(108.6)
Non-current	(119.0)	–	(15.4)	–	(10.5)	(144.9)

[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. On transition, management has taken the exemption to reclassify onerous lease provisions as impairment of the right-of-use assets recognised on transition as at 27 January 2019 (see note 1.1.4).

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 25 January 2020	**(153.5)**	
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.

Provisions for insurance claims 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.

Provisions for reorganisation reflect restructuring and redundancy costs, principally in relation to our branch, distribution and retail operations as well as head office and central function restructuring. Other provisions include property related costs and pay provisions.

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 lease liabilities.

5.1 NET FINANCE COSTS

	2020 £m	2019 £m
Finance costs		
Net interest payable on:		
Commitment fees and bank overdrafts	**(1.3)**	(1.5)
Other loans repayable within five years[1]	**(26.2)**	(19.5)
Other loans repayable in more than five years	**(12.7)**	(33.6)
Interest payable in relation to lease liabilities[2]	**(104.2)**	(0.9)
Amortisation of issue costs of bonds and credit facilities	**(1.5)**	(1.6)
Finance costs in respect of borrowings	**(145.9)**	(57.1)
Fair value measurements and other	**(3.6)**	(5.9)
Net finance costs arising on defined benefit retirement scheme	**(6.9)**	(17.0)
Net finance costs arising on other employee benefit schemes	**(18.6)**	(0.3)
Total finance costs	**(175.0)**	(80.3)
Finance income		
Finance income in respect of cash and short-term investments[3]	**11.4**	**10.1**
Fair value measurements and other	**2.3**	**3.5**
Total finance income	**13.7**	**13.6**
Net finance costs	**(161.3)**	**(66.7)**

1 Other loans repayable within five years includes interest payable on interest rate swaps of £5.8m (2019: £5.7m).
2 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 (see note 1.1.4).
3 Finance income in respect of cash and short-term investments includes interest receivable on interest rate swaps of £6.1m (2019: £6.1m).

Capitalised borrowing costs totalled £5.1m (2019: £7.4m) of which £4.6m (2019: £6.1m) were capitalised within intangible assets and £0.5m (2019: £1.3m) were capitalised within property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.2 ANALYSIS OF NET DEBT

	At 26 January 2019 £m	Adjustment on initial application of IFRS 16[1] £m	At 27 January 2019 £m	Cash movements £m	Other non-cash movements £m	**2020 £m**
Non-current assets						
Derivative financial instruments	0.2	–	0.2	–	(0.1)	**0.1**
	0.2	–	0.2	–	(0.1)	**0.1**
Current assets						
Cash and cash equivalents	716.8	–	716.8	(118.5)	–	**598.3**
Short-term investments	265.4	–	265.4	51.4	0.4	**317.2**
Derivative financial instruments	6.8	–	6.8	(9.6)	7.6	**4.8**
	989.0	–	989.0	(76.7)	8.0	**920.3**
Current liabilities						
Borrowings and overdrafts	(275.0)	–	(275.0)	275.0	–	**–**
Unamortised bond transaction costs	0.1	–	0.1	–	(0.1)	–
Lease liabilities[1]	–	(87.7)	(87.7)	196.9	(204.6)	**(95.4)**
Finance leases	(0.5)	0.5	–	–	–	–
Derivative financial instruments	(7.5)	–	(7.5)	(0.1)	(11.1)	**(18.7)**
	(282.9)	(87.2)	(370.1)	471.8	(215.8)	**(114.1)**
Non-current liabilities						
Borrowings	(725.0)	–	(725.0)	(0.1)	–	**(725.1)**
Unamortised bond transaction costs	10.4	–	10.4	–	(1.0)	**9.4**
Fair value adjustment for hedged element on bonds	0.8	–	0.8	–	(3.6)	**(2.8)**
Lease liabilities[1]	–	(2,011.4)	(2,011.4)	–	11.9	**(1,999.5)**
Finance leases	(20.6)	20.6	–	–	–	–
Derivative financial instruments	(2.0)	–	(2.0)	–	(1.9)	**(3.9)**
	(736.4)	(1,990.8)	(2,727.2)	(0.1)	5.4	**(2,721.9)**
Total net debt	**(30.1)**	**(2,078.0)**	**(2,108.1)**	**395.0**	**(202.5)**	**(1,915.6)**

[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 has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1.1.4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5.2 ANALYSIS OF NET DEBT (CONTINUED)

Reconciliation of net cash flow to net debt	2020 £m	2019 £m
(Decrease)/increase in net cash and cash equivalents in the year	**(118.5)**	120.7
Cash outflow from movement in short-term investments	**51.4**	99.0
Cash outflow/(inflow) from movement in other net debt items	**462.1**	(120.2)
Cash movement in net debt for the year	**395.0**	99.5
Opening net debt	**(30.1)**	(142.6)
Adjustment on initial application of IFRS 16[1]	**(2,078.0)**	–
Non-cash movement in net debt for the year	**(202.5)**	13.0
Closing net debt	**(1,915.6)**	(30.1)

[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 has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1.1.4).

Our total borrowings and lease liabilities are summarised below.

	Borrowings £m	Lease liabilities £m	**Total £m**
At 27 January 2018	(875.1)	(23.3)	(898.4)
Movements arising from financing cash flows	(124.9)	1.7	(123.2)
Other non-cash movements	–	0.5	0.5
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)**

[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 has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application (see note 1.1.4).

Borrowings exclude unamortised bond transaction costs of £9.4m (2019: £10.5m) and the fair value adjustment for hedged element on bonds of £2.8m loss (2019: £0.8m gain).

5.3 SHORT-TERM INVESTMENTS

ACCOUNTING POLICY

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. Given the AA VNAVs have a weighted average maturity of less than 90 days they have been included within short-term investments due to the fact they do not bear an insignificant risk of changes in value.*

Short-term investments	**2020 £m**	2019 £m
Short-term investments	**317.2**	265.4

For the year ended 25 January 2020, the effective interest rate on short-term investments was 1.1% (2019: 1.0%) and these investments had an average maturity of 62 days (2019: 116 days).

5.4 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

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.*

Cash and cash equivalents	**2020 £m**	2019 £m
Cash at bank and in hand	**151.2**	128.2
Short-term deposits	**447.1**	588.6
	598.3	716.8

For the year ended 25 January 2020, the effective interest rate on short-term deposits was 0.7% (2019: 0.6%) and these deposits had an average maturity of three days (2019: three days).

At 25 January 2020, £13.4m (2019: £19.6m) of the Group's cash balance and £nil (2019: £0.1m) 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.

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 6.1%.

5.5 BORROWINGS AND OVERDRAFTS (CONTINUED)

Borrowings and overdrafts	**2020 £m**	2019 £m
Current:		
8⅜% bonds, 2019	–	(275.0)
Unamortised bond transaction costs	–	0.1
	–	(274.9)
Non-current:		
Bank loans	**(125.1)**	(125.0)
6⅛% bonds, 2025	**(300.0)**	(300.0)
4¼% bonds, 2034	**(300.0)**	(300.0)
Unamortised bond and loan transaction costs	**9.4**	10.4
Fair value adjustment for hedged element on bonds	**(2.8)**	0.8
	(718.5)	(713.8)

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

In April 2019, the Group repaid the 2019 bond amounting to £275.0m.

5.6 LEASE LIABILITIES

ACCOUNTING POLICY

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.

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 for leases 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.

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.

5.6 LEASE LIABILITIES (CONTINUED)

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 branches, 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);*
- *If any leasehold improvements are expected to have significant remaining value, the Group is typically reasonably certain to extend (or not 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.*

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

	2020 £m	2019 £m
Depreciation charge for right-of-use assets (excluding impairment) (see note 3.2)	**(134.7)**	–
Interest expense on lease liabilities	**(104.2)**	–
Expense relating to short-term leases	**(0.8)**	–
Expense relating to leases of low value assets that are not shown above as short-term leases	**(1.8)**	–
Expense relating to variable lease payments not included in lease liabilities	**(5.5)**	–
Total cash outflow for leases comprising interest and capital payments (see note 5.2)	**(196.9)**	–
Additions to right-of-use assets (see note 3.2)	**80.5**	–
Carrying amount of right-of-use assets (see note 3.2)	**1,854.9**	–
Gains/(losses) arising from sale and leaseback transactions	**14.8**	–
Income from sub-leasing right-of-use assets	**5.7**	–

Prior to 27 January 2019, the Group recognised finance leases in line with IAS17. Assets which were leased on terms that transferred substantially all the risks and rewards of ownership to the Group were treated as finance leases and capitalised at the inception of the lease at the fair value of the leased liabilities or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of finance lease rentals was charged to the income statement. From 27 January 2019, the Group no longer recognises finance leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16. Therefore, the future aggregate minimum lease payments payable under finance leases as at 25 January 2020 are deemed to be £nil (see note 1.1.4).

Finance lease liabilities	**2020 £m**	2019 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**–**	(1.3)
Later than one year but not more than five	**–**	(4.8)
More than five years	**–**	(30.4)
	–	(36.5)
Future finance charge on finance leases	**–**	15.4
Present value of finance lease liabilities	**–**	(21.1)
Of which:		
Not later than one year	**–**	(0.5)
Later than one year but not more than five	**–**	(2.2)
More than five years	**–**	(18.4)

5.6 LEASE LIABILITIES (CONTINUED)

Prior to 27 January 2019, the Group recognised operating leases in line with IAS 17. Leases where the Group does not retain substantially all the risks and rewards of ownership of the asset were classified as operating leases. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term. From the 27 January 2019, the Group no longer recognises operating leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16. Therefore the future aggregate minimum lease payments payable under non-cancellable leases as at 25 January 2020 are deemed to be £nil (see note 1.1.4).

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2020 £m**	2019 £m
Within one year	–	(192.5)
Later than one year and less than five years	–	(757.4)
After five years	–	(2,716.1)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	**2020 £m**	2019 £m
Later than five years and less than 10 years	–	(825.7)
Later than 10 years and less than 20 years	–	(1,087.5)
Later than 20 years and less than 40 years	–	(517.7)
Later than 40 years and less than 80 years	–	(248.9)
After 80 years	–	(36.3)
	–	(2,716.1)

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 POLICY

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 salary 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. The current service cost is included within operating profit in the consolidated income statement.

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. On 15 May 2019, Partnership Council voted in favour of proposals by the Partnership Board to close the defined benefit section of the scheme to future accrual from 1 April 2020. 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.

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.

Following closure, members' deferred pensions will now increase annually by inflation up to 5% per annum (measured using the Consumer Price Index, CPI), which is generally lower than the previous pay growth assumption, resulting in a reduction of the defined benefit obligation. The accounting impact of the closure was a reduction in the defined benefit obligation of £156.0m. This reflects 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 is partially offset by a £93.0m actuarial loss, recognised through equity. This reflects 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. There will be no further current or past service costs from 1 April 2020. 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 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.

6.1 RETIREMENT BENEFITS (CONTINUED)

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 is being carried out by an independent professionally qualified actuary as at 31 March 2019. As part of the ongoing triennial actuarial valuation of the scheme, underlying membership data has been updated as at 31 March 2019. This has resulted in an actuarial gain, recognised through equity, of £160.6m, reflecting the difference between actual experience compared to assumptions made in estimating the liability. Pension commitments recognised in these financial statements have been calculated based on that updated membership data. The 31 March 2019 triennial actuarial valuation is currently in progress.

The previous valuation as at 31 March 2016 resulted in a funding deficit of £479.0m (31 March 2013: £840.0m). The market value of the assets of the scheme as at 31 March 2016 was £4,377.0m (31 March 2013: £3,169.0m). The actuarial valuation showed that these assets were sufficient to cover 90% (31 March 2013: 79%) of the benefits which had accrued to members. The valuation calculated under the funding valuation basis of £479.0m is different from the accounting valuation which is presented on the balance sheet in the Group's financial statements of £417.4m. 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 2016 and 25 January 2020. For funding valuation purposes the liabilities are determined based on assumptions set by the Trustee following consultation with the Group and scheme actuaries. The discount rate used for the funding valuation as at 31 March 2016 is based on index linked gilt yields plus 1.6%. 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 £479.0m over a 10-year period. Contributions agreed as part of this plan are as follows:

- A reduction in the contribution rate from 16.4% to 10.4% of eligible monthly payroll;
- Deficit reducing contributions from 1 April 2016 to 31 March 2019 of £33.0m per annum to be paid in equal monthly instalments, increasing by 3% at 31 March 2017 and 31 March 2018;
- Deficit reducing contributions from 1 April 2019 to 31 March 2026 of £6.6m per annum to be paid in equal monthly instalments, increasing on 31 March each year by 3%. The requirement for the deficit reducing contributions for the 12 months to 31 March 2020 was subsequently removed as an outperformance clause within the Schedule of Contributions had been met; and
- One-off contributions of £100.0m and £50.0m due by 31 January 2017 and 31 March 2017 respectively, of which the £100.0m was paid on 18 January 2017 and £50.0m was paid on 24 February 2017.

The balance of the deficit is expected to be met by investment returns on the scheme assets. Total contributions to the scheme in 2020/21, under this agreement are expected to be £108.5m, subject to any changes as a result of the ongoing triennial actuarial valuation of the scheme, taking place for 31 March 2019 which is due to complete imminently. Subsequent to the funding valuation being agreed, it was identified that certain pension scheme members were omitted from the calculation of the pension liabilities. Including these additional members increased the estimated pension liabilities by £31.0m (0.6%), from £4,856.0m to £4,887.0m. As a result, the Group has agreed to payments, in addition to the contributions described above, of £6.1m made in December 2017 and a further £3.2m per annum payable in equal monthly instalments from 1 April 2018 to 31 March 2026, increasing on 31 March each year by 3%.

Pension commitments recognised in these accounts have been calculated based on the actuarial valuation, as at 31 March 2016, which has been updated by actuaries to reflect the assets and liabilities of the scheme as at 25 January 2020, 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 RETIREMENT BENEFITS (CONTINUED)

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 25 January 2020.

The following financial assumptions have been used to value the obligation:

	2020	2019
Discount rate	**1.90%**	2.80%
Future RPI inflation	**2.80%**	3.15%
Future CPI inflation	**2.00%**	2.15%
Increase in earnings	**n/a**	3.25%
Increase in pensions – in payment		
- Pre-April 1997	**1.60%**	1.65%
- April 1997-April 2016	**2.70%**	2.95%
- Post-April 2016	**1.60%**	1.65%
Increase in pensions – deferred	**2.00%**	2.15%

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 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 22 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 Partnership's defined benefit pension obligations are based on a cash flow weighted Bank of England RPI, which is then adjusted for inflation risk. As at 25 January 2020, in order to reflect the impact of recent proposals by the UK Chancellor and the UK Statistics Authority (UKSA) to align the RPI with CPIH (a variant of the Consumer Prices Index that includes an estimate of housing costs), 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 0.4% beyond this date (an average margin of 0.3%). A long-term gap of 1.0% between RPI and CPI has been applied until 2030, reducing to 0.5% beyond this date (an average long-term gap of 0.8%). There exists some uncertainty over the timing of the change, however 2030 is the earliest date that the UKSA can change RPI without government consent. The impact of this change has resulted in an actuarial loss of £23.6m recognised in equity.

Increases in earnings: Increases in earnings are projected to be at 3.25% until 1 April 2020 when the scheme closed. Following closure, increase in earnings is not applicable.

Demographic assumptions

The post-retirement mortality assumptions used in valuing the pension liabilities were based on the S2 Light (2019: 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 most recent CMI 2018 improvements model with a smoothing parameter of 7.0 (2019: CMI 2017, smoothing parameter of 7.0), subject to a long-term trend of 1.25%.

The average life expectancies assumed were as follows:

	2020		2019	
	Men	**Women**	Men	Women
Average life expectancy for a 65 year old (in years)	**21.0**	**23.3**	21.1	23.5
Average life expectancy at age 65, for a 50 year old (in years)	**21.9**	**24.5**	22.0	24.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6.1 RETIREMENT BENEFITS (CONTINUED)

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.

Amounts recognised in the balance sheet	2020 £m	2019 £m
Defined benefit obligation for funded arrangements	**(6,798.9)**	(6,060.0)
Defined benefit obligation for unfunded arrangements	**(22.1)**	(23.0)
Total defined benefit obligation	**(6,821.0)**	(6,083.0)
Total value of scheme assets	**6,403.6**	5,614.9
Defined benefit liability at year-end	**(417.4)**	(468.1)

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.

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	2020 £m	2019 £m
Current service cost	**(109.1)**	(134.6)
Past service gain as a result of closure	**249.0**	–
Contribution expense[1]	**(82.0)**	(72.5)
Administrative expenses – funded by the pension scheme	**(7.0)**	(6.1)
Administrative expenses – funded by the employer	**(5.9)**	(5.9)
Total operating income/(expense)	**45.0**	(219.1)
Net interest on net defined benefit liability	**(6.9)**	(17.0)
Total pension credit/(charge)	**38.1**	(236.1)

1 Includes Group contributions to the defined contribution section of the pension scheme of £78.0m (2019: £68.5m), together with cash supplements in respect of certain Partners in lieu of future pension accrual of £4.0m (2019: £4.0m).

Amounts recognised in equity	2020 £m	2019 £m
Return on plan assets greater/(less) than interest income	**693.6**	(15.0)
Remeasurements:		
– (loss)/gain from changes in financial assumptions	**(1,004.3)**	184.9
– (loss)/gain from changes in demographic assumptions	**(43.5)**	102.4
– experience gains	**160.6**	0.4
Total (loss)/gain recognised in equity	**(193.6)**	272.7

6.1 RETIREMENT BENEFITS (CONTINUED)

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.

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 interest income and remeasurements (explained further below).

Reconciliation of net defined benefit liability	2020 £m	2019 £m
Net defined benefit liability at beginning of year	**(468.1)**	(731.3)
Pension credit/(charge)	**126.0**	(157.7)
Contributions	**118.3**	148.2
Total (losses)/gains recognised in equity	**(193.6)**	272.7
Net defined benefit liability at end of year	**(417.4)**	(468.1)

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	2020 £m	2019 £m
Defined benefit obligation at beginning of year	**(6,083.0)**	(6,224.0)
Past service gain as a result of closure	**249.0**	–
Current service cost	**(109.1)**	(134.6)
Interest on pension liabilities	**(159.3)**	(169.2)
Remeasurements		
– (loss)/gain from changes in financial assumptions	**(1,004.3)**	184.9
– (loss)/gain from changes in demographic assumptions	**(43.5)**	102.4
– experience gains	**160.6**	0.4
Benefits paid	**168.6**	157.1
Defined benefit obligation at end of year	**(6,821.0)**	(6,083.0)

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.3 RECONCILIATION OF RETIREMENT BENEFITS (CONTINUED)

The scheme liabilities are 44.3% in respect of active scheme participants, 23.7% in respect of deferred scheme participants and 32.0% in respect of retirees.

The weighted average duration of the scheme liabilities at the end of the year is 22 years (2019: 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.

Reconciliation of value of assets	**2020 £m**	2019 £m
Value of assets at the beginning of year	**5,614.9**	5,492.7
Interest income on assets	**152.4**	152.2
Return on plan assets greater/(less) than interest income	**693.6**	(15.0)
Benefits paid	**(168.6)**	(157.1)
Administrative expenses paid	**(7.0)**	(6.1)
Contributions	**118.3**	148.2
Value of assets at the end of year	**6,403.6**	5,614.9

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.4 ANALYSIS OF ASSETS

	2020				2019			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total**	Quoted £m	Unquoted £m	Total £m	Total
Equities								
UK	**45.7**	**39.0**	**84.7**	**1.3%**	33.2	34.1	67.3	1.2%
Rest of the world	**887.5**	**1,178.2**	**2,065.7**	**32.3%**	641.5	999.1	1,640.6	29.2%
Bonds								
Government – Rest of the world	**113.8**	**0.1**	**113.9**	**1.8%**	102.3	2.5	104.8	1.9%
Corporates – UK	**3.6**	**–**	**3.6**	**<0.1%**	5.2	1.8	7.0	0.1%
Corporates – Rest of the world	**86.5**	**113.6**	**200.1**	**3.1%**	95.5	80.9	176.4	3.1%
Property								
UK	**–**	**516.9**	**516.9**	**8.1%**	–	550.3	550.3	9.8%
Rest of the world	**–**	**0.1**	**0.1**	**<0.1%**	–	0.4	0.4	<0.1%
Alternative assets								
Liability driven investments	**–**	**1,530.4**	**1,530.4**	**23.9%**	–	937.7	937.7	16.7%
Hedge funds	**–**	**642.9**	**642.9**	**10.0%**	–	1,002.9	1,002.9	17.9%
Private equity	**–**	**375.5**	**375.5**	**5.9%**	–	340.9	340.9	6.1%
Other alternative assets	**–**	**613.2**	**613.2**	**9.6%**	–	670.8	670.8	11.9%
Cash and other	**256.6**	**–**	**256.6**	**4.0%**	115.8	–	115.8	2.1%
Total market value of assets	**1,393.7**	**5,009.9**	**6,403.6**	**100.0%**	993.5	4,621.4	5,614.9	100%

6.1 RETIREMENT BENEFITS (CONTINUED)

6.1.4 ANALYSIS OF ASSETS (CONTINUED)

The Trustee's investment strategy as set out in their Statement of Investment Principles dated 24 September 2019, is to hold 80% of assets in a return seeking portfolio that aims to reduce concentrations of risk by diversifying across a range of asset classes and geographies. The remaining assets are used to provide a liability matching portfolio with the intention of matching movements in the assessed values of the pension liabilities due to movements in interest rates and inflation. In 2016 the Trustee initiated a three to five-year interest rate and inflation hedging programme which increased the level of liability matching to 60% in line with its stated target. In October 2019, the Trustee agreed with the Group to increase the level to 80%. This is implemented using derivatives and therefore does not reduce the allocation to return seeking assets.

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 £3,221.5m (2019: £2,397.9m) and associated repurchase agreements and swaps valued at £(1,691.1)m (2019: £(1,460.2)m). This is part of the Trustee's interest rate and inflation hedging strategy.

Other alternative assets include investments in infrastructure funds of £309.0m (2019: £275.3m), insurance linked funds of £95.1m (2019: £193.6m), private debt of £239.2m (2019: £205.6m) and equity options of £(30.1)m (2019: £(3.7)m).

Cash and other includes cash deposits of £247.4m (2019: £101.7m), forward foreign exchange contracts valued at £12.6m (2019: £13.8m) and other items valued at £(3.4)m (2019: £0.3m).

Actual return on assets	**2020 £m**	2019 £m
Interest income on assets	**152.4**	152.2
Return on plan assets greater/(less) than interest income	**693.6**	(15.0)
Actual return on assets	**846.0**	137.2

6.1.5 SENSITIVITY ANALYSIS

The net 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 25 January 2020	**(6,821.0)**	
Sensitivity of 0.1% increase to:		
– Discount rate[1]	**147.5**	**2.2%**
– Retail price inflation	**(28.2)**	**(0.4%)**
– Consumer price inflation	**(52.3)**	**(0.8%)**
Sensitivity of one-year increase in life expectancy	**(233.9)**	**(3.4%)**

[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.

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 £73.8m (2019: £71.7m) 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 for any reason, 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 £800.0m of net assets. The guarantee has improved the recovery to the pension scheme in the event of insolvency of the Group.

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, seeking to ensure the long-term financial sustainability of the Group by maintaining a financial risk profile consistent with an investment grade credit rating. 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 3), whilst maintaining an appropriate level of cash and committed debt headroom 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. The Group has a £450.0m committed credit facility, maturing in November 2021 and a £50.0m committed credit facility maturing in March 2021. At the year-end, the Group had undrawn committed credit facilities of £500.0m (2019: £500.0m). In addition to these facilities, the Group had listed bonds at the year-end totalling £600.0m (2019: £875.0m), 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 £125.0m (2019: £125.0m) were agreed during 2018/19, of which £75.0m matures in 2021 and £50.0m in 2023. The loans have variable interest payments. The maturity profiles of financial debt are set out below.

The Group's listed bonds, bank loans and committed credit facilities contain financial covenants. Throughout the year the Group maintained comfortable headroom against its covenants (for further detail see pages 12 to 13).

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	**(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)**

	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	(988.7)	(1,000.0)	(275.0)	–	(725.0)
Interest payments on borrowings	–	(345.6)	(57.2)	(34.2)	(254.2)
Finance lease liabilities	(21.1)	(36.5)	(1.3)	(1.3)	(33.9)
Trade and other payables	(1,328.2)	(1,328.2)	(1,328.0)	(0.2)	–
Derivative financial liabilities					
Derivative contracts – receipts	–	455.6	360.4	70.6	24.6
Derivative contracts – payments	–	(455.9)	(360.1)	(72.3)	(23.5)
At 26 January 2019	(2,338.0)	(2,710.6)	(1,661.2)	(37.4)	(1,012.0)

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.

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.

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 £444.7m (2019: £418.5m) had been entered into, to hedge purchases in foreign currencies which will mature over the next 18 months.

In addition, the Group has purchased $200.0m of Sterling/US dollar options and €100.0m of Sterling/Euro options, which expired in February 2020, in order to help manage its indirect currency risk. Fair value movements in the option contracts will be recognised within the income statement. The indirect risk being 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.
The Group considers its maximum exposure to credit risk is as follows:

	2020 £m	2019 £m
Trade and other receivables[1]	**202.7**	129.8
Short-term investments	**317.2**	265.4
Cash and cash equivalents	**598.3**	716.8
Derivative financial instruments	**4.9**	7.0
	1,123.1	1,119.0

1 The Partnership 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 Partnership (see note 8.2.3). Included within other receivables is a balance of £60.1m due from John Lewis Partnership Trust Limited in relation to SIP shares in issue but not allocated to Partners. In 2019, this balance was shown net within amounts owed to parent company (2019: £45.7m) (see note 4.3).

7.1.6 ENERGY RISK

The Group operates risk management processes for the energy costs associated with the Group's activities. The Group's energy policy is reviewed by an Energy Committee, which meets regularly to review 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 £1.4m (2019: £1.1m) had been entered into, to hedge purchases of diesel that will mature within the next month.

7.1 MANAGEMENT OF FINANCIAL RISKS (CONTINUED)

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.*

	2020		2019	
	Income statement +/- £m	**Equity +/- £m**	Income statement +/- £m	Equity +/- £m
UK interest rates +/- 1% (2019: +/- 1%)	**4.0**	**–**	6.3	–
US Dollar exchange rate (GBP/USD) +/- 10% (2019: +/- 10%)	**13.3**	**22.7**	12.4	20.1
Euro exchange rate (GBP/EUR) +/- 10% (2019: +/- 10%)	**6.9**	**15.7**	7.3	15.8

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 25 January 2020, 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.

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:

				2020				2019
Fair value of derivative financial instruments	**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	**0.1**		**(2.9)**		0.2		(1.2)	
flow hedge		**(3.0)**		**–**		(1.4)		–
Other derivatives	**–**	**(0.9)**	**–**	**(0.9)**	–	(0.6)	–	(0.6)
	0.1	**(3.9)**	**(2.9)**	**(0.9)**	0.2	(2.0)	(1.2)	(0.6)
Current:								
Currency derivatives – cash flow hedge	**2.0**	**(18.2)**	**(16.2)**	**–**	6.4	(5.9)	0.5	–
Other derivatives	**2.8**	**(0.5)**	**–**	**2.3**	0.4	(1.6)	–	(1.2)
	4.8	**(18.7)**	**(16.2)**	**2.3**	6.8	(7.5)	0.5	(1.2)

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):

		2020		2019
		£m		£m
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(590.6)**	**(645.7)**	(864.5)	(858.2)

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.

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	823.9	91.2	915.1
Other financial assets	0.4	–	0.4
At 25 January 2020	**824.3**	**91.2**	**915.5**
Sterling financial assets	883.6	98.2	981.8
Other financial assets	0.4	–	0.4
At 26 January 2019	884.0	98.2	982.2

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 stores 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 25 January 2020	**(2,586.0)**	**(224.6)**	**(2,810.6)**
At 26 January 2019	(786.3)	(224.3)	(1,010.6)

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

Share capital	2020 Authorised £m	2020 Issued and fully paid £m	2019 Authorised £m	2019 Issued and fully paid £m
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 35. 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 25 January 2020, the value of SIP shares purchased by John Lewis Partnership Trust Limited on behalf of Partners was £44.1m (2019: £58.5m), £60.1m lower than the value of SIP shares issued of £104.2m (2019: £104.2m). The £60.1m (2019: £45.7m) 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.

During the year the Group provided administrative support services to charities related to the Group. The estimated value of these support services is £90,000 (2019: £84,000). The Group also made donations totalling £nil (2019: £0.7m) to the John Lewis & Partners Foundation.

8.3 SUBSEQUENT EVENTS

Events that take place after the balance sheet date of 25 January 2020 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.

8.3.1 CORONAVIRUS

The Coronavirus outbreak has developed rapidly in 2020 after our results were announced and with hindsight would have had a material impact if the full effect on the business being felt today was reflected in these accounts. At 25 January 2020 the emerging Coronavirus outbreak was largely restricted to China with a few contained cases reported around the world. Whilst this presented a threat to the supply chain it was not forecast to impact day-to-day operations and therefore no impact was reflected in our sales performance and cost forecasts. The situation has changed significantly and on 21 March 2020 the Group announced the temporary closure of all John Lewis shops from the end of business on Monday 23 March. These shops will not reopen until it is safe and financially prudent to do so. This was in advance of the government's announcement on 23 March 2020 that shops selling 'non-essential goods' will be closed immediately. On 1 April 2020, as a result of the closure of all John Lewis shops, the Group announced that it would furlough 14,000 Partners.

8.3 SUBSEQUENT EVENTS (CONTINUED)

8.3.1 CORONAVIRUS (CONTINUED)

Whether the impact of Coronavirus is an adjusting or non-adjusting post balance sheet event is a significant judgement which impacts its treatment in these accounts. A post balance sheet event is adjusting if it provides more information about circumstances that existed at the year-end. The Group has concluded that Coronavirus is a non-adjusting post balance sheet event at 25 January 2020 on the basis that at that date:

- The World Health Organisation had not declared a global health emergency;
- There was no significant spread of the virus outside of China; and
- There were no cases in the UK and no evidence that the virus was not contained in Europe at that stage.

Events such as the announcement or enactment of new measures to contain the virus or decisions taken by management are generally considered to be non-adjusting. As a non-adjusting event we have therefore made no adjustments in these financial statements to account for the impact of Coronavirus above that which was known at 25 January 2020. Given the unknown and unprecedented risk and response to the outbreak it is difficult to predict the full extent that Coronavirus will have on our retail and online sales. We have summarised below where we see material changes in our estimates and judgements impacting the balance sheet at 25 January 2020. This is based on our best estimates of the impact of the closure of John Lewis stores for a period of 12 weeks or longer and the wider economic challenges of the virus over this period and beyond.

Branch impairments (John Lewis)
Due to the current closure of all John Lewis stores, cash flows from each store will be reduced, which will decrease the recoverable amount from individual store CGUs. As a consequence, had this been taken into consideration within these financial statements, an increased impairment charge would have arisen. As discussed above this is considered to be a non-adjusting post balance sheet event.

For the purposes of appropriate disclosure, we have modelled a sensitivity aligned to the downside scenarios used for our going concern and viability assessment. This ranges from the closure of John Lewis shops for a period of 12 weeks and significant sales decline in John Lewis for both shops and online, to the closure of both John Lewis shops and online for a period of 6 months with a further significant decline in sales in both shops and online for the remainder of 2020/21. The sensitivity includes a slow recovery with reduced trading performance across both brands in 2021/22 and 2022/23. The scenario includes cost mitigations that are currently being actioned across the Group, specifically in respect of business rates, marketing expenditure and Partner costs. The allocation of online sales remains unchanged as the methodology for the calculation is not considered to be impacted by this short-term disruption to trade. This sensitivity modelling results in an increased impairment charge of £70-100m.

Pension deficit
The rapid spread of Coronavirus has led to significant market fluctuations and a dramatic fall in global stock markets and bond yields. Equities are particularly volatile, as are high yield bond and high risk debt markets. However, government bonds have seen strong performance, pushing yields lower, as investors seek safer assets and the effects of quantitative easing are felt. AA+ corporate bond yields, on which the Group's retirement benefit obligation discount rate is based have increased significantly, increasing the nominal discount rate and decreasing the pension liability. Inflation has also reduced, further decreasing the pension liability. Partially offsetting this is a reduction in assets due to a fall in underlying equities. The Group's asset portfolio is weighted towards growth assets which increases their exposure to market conditions. The net impact of the above, based on market conditions at the date of signing the Annual Report and Accounts, is expected to be favourable for the Group's IAS 19 accounting pension deficit.

Inventory
We have considered the level of inventory provision held at the 25 January 2020 and do not believe that there is further material impairment to inventory held at this point resulting from the Coronavirus outbreak. At the balance sheet date we had some new season inventory but this has largely been sold and replenished before the outbreak, whilst our holding of autumn/winter and older season stocks have been substantially reduced since year-end. The stock of perishable goods that existed at the year-end have been largely sold or are being transferred out of John Lewis stores to be sold online or through Waitrose branches.

Intangible work in progress
There was £121m of intangible work in progress on the balance sheet at 25 January 2020 (see note 3.1). If projects are delayed or stopped as investment is paused to protect cash, this could trigger an impairment of the intangible work in progress recognised to date if there is deemed to be a reduction in the expected economic benefits generated from the project. The size of the impairment will depend on the likelihood of the project restarting or being completed and the level of costs incurred to date that will no longer generate economic benefits. This is difficult to quantify at the current time and will need to be reviewed further in advance of half year. Clearly a level of uncertainty exists as the Coronavirus pandemic progresses, but this has been considered as part of our viability assessment, see pages 12 to 13.

8.3.2 WAITROSE STORE CLOSURES

On 5 March 2020, Waitrose informed Partners that three shops will close later this year at Helensburgh, Four Oaks and Waterlooville. As a result of the Coronavirus pandemic in recent weeks, the closure of two of these shops is to be delayed. No accounting for potential redundancies was recorded for the year ended 25 January 2020 in respect of these shop closures on the basis that the announcement to Partners was after the year-end. All three branches are fully impaired, however, it is not anticipated that an extension of the closure period would significantly alter the impairment judgement.

COMPANY BALANCE SHEET

as at 25 January 2020

Notes		2020[1] £m	2019 £m
	Non-current assets		
12	Intangible assets	**332.3**	369.8
13	Property, plant and equipment	**851.9**	943.6
13	Right-of-use-assets	**1,000.2**	–
18	Trade and other receivables	**4.2**	42.5
28	Derivative financial instruments	**0.1**	0.2
14	Investments in subsidiaries	**941.9**	1,135.3
15	Investments in and loans to joint venture	**2.5**	2.7
26	Deferred tax asset	**101.6**	73.6
		3,234.7	2,567.7
	Current assets		
17	Inventories	**387.3**	428.3
18	Trade and other receivables	**220.1**	148.7
	Current tax receivable	–	30.8
28	Derivative financial instruments	**4.8**	6.8
16	Assets held for sale	–	9.4
19	Short-term investments	**306.4**	265.4
20	Cash and cash equivalents	**520.3**	630.6
		1,438.9	1,520.0
	Total assets	**4,673.6**	4,087.7
	Current liabilities		
22	Borrowings and overdrafts	–	(274.9)
23	Trade and other payables	**(1,526.1)**	(1,492.2)
24	Lease liabilities	**(27.7)**	(0.1)
	Current tax payable	**(10.2)**	–
25	Provisions	**(98.4)**	(101.9)
28	Derivative financial instruments	**(18.7)**	(7.5)
		(1,681.1)	(1,876.6)
	Non-current liabilities		
22	Borrowings	**(718.5)**	(713.8)
23	Trade and other payables	**(38.5)**	(203.1)
24	Lease liabilities	**(1,122.6)**	(13.2)
25	Provisions	**(141.5)**	(125.3)
28	Derivative financial instruments	**(3.9)**	(2.0)
32	Retirement benefit obligations	**(343.6)**	(396.5)
		(2,368.6)	(1,453.9)
	Total liabilities	**(4,049.7)**	(3,330.5)
	Net assets	**623.9**	757.2

	Equity		
33	Share capital	**6.7**	6.7
	Share premium	**0.3**	0.3
	Other reserves	**(13.8)**	–
	Retained earnings	**630.7**	750.2
	Total equity	**623.9**	757.2

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 (see note 9.3).

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

The financial statements on pages 84 to 110 were approved by the Board of Directors on 15 April 2020 and signed on its behalf by

Sharon White and Patrick Lewis
Directors, John Lewis plc

Registered number 00233462

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 25 January 2020

Notes		Share capital £m	Share premium £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total equity £m
	Balance at 27 January 2018	6.7	0.3	(16.9)	0.4	590.5	581.0
10	Loss for the year	–	–	–	–	(59.4)	(59.4)
	Remeasurement of defined benefit pension scheme	–	–	–	–	267.3	267.3
	Fair value gains on cash flow hedges	–	–	21.8	–	–	21.8
	Tax on above items recognised in equity	–	–	(4.1)	–	(48.2)	(52.3)
	Gains on foreign currency translations	–	–	–	0.2	–	0.2
	Total comprehensive income for the year	–	–	17.7	0.2	159.7	177.6
	Hedging gains transferred to cost of inventory	–	–	(1.4)	–	–	(1.4)
	Balance at 26 January 2019	6.7	0.3	(0.6)	0.6	750.2	757.2
	Adjustment on initial application of IFRS 16[1]	–	–	–	–	1.8	1.8
	Balance at 27 January 2019	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 losses on cash flow hedges	–	–	(8.7)	–	–	(8.7)
	Tax on above items recognised in equity	–	–	3.2	–	32.8	36.0
	Gains 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)
	Balance at 25 January 2020	6.7	0.3	(14.6)	0.8	630.7	623.9

[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 (see note 9.3).

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

COMPANY STATEMENT OF CASH FLOWS

for the year ended 25 January 2020

Notes		2020[1] £m	2019 £m
30	**Cash generated from operations before Partnership Bonus**	**404.9**	182.1
	Net taxation received/(paid)	**(15.3)**	(9.7)
	Pension deficit reduction payments	**(12.8)**	(37.1)
	Finance costs paid	**(65.6)**	(1.2)
	Net cash generated from operating activities before Partnership Bonus	**311.2**	134.1
	Partnership Bonus paid	**(21.2)**	(34.3)
	Net cash generated from operating activities after Partnership Bonus	**290.0**	99.8
	Cash flows from investing activities		
	Purchase of property, plant and equipment	**(116.4)**	(52.4)
	Purchase of intangible assets	**(89.5)**	(116.0)
	Proceeds from sale of property, plant and equipment and intangible assets	**0.4**	2.4
	Cash inflow from loans to group companies	**193.4**	223.2
	Cash outflow from investment in subsidiaries	**–**	(9.8)
	Dividend income received	**6.0**	5.4
	Finance income received	**4.8**	2.5
	Cash outflow from investment in and loans to joint venture	**–**	(0.5)
	Cash outflow from short-term investments	**(40.7)**	(99.0)
	Net cash used in investing activities	**(42.0)**	(44.2)
	Cash flows from financing activities		
	Finance costs paid in respect of bonds	**(54.2)**	(54.2)
	Finance costs paid in respect of financial instruments	**(0.7)**	(0.5)
	Payment of capital element of leases	**(28.4)**	(0.2)
	Cash (outflow)/inflow from borrowings	**(275.0)**	124.3
	Net cash (used in)/generated from financing activities	**(358.3)**	69.4
	(Decrease)/increase in net cash and cash equivalents	**(110.3)**	125.0
	Net cash and cash equivalents at beginning of the year	**630.6**	505.6
	Net cash and cash equivalents at end of the year	**520.3**	630.6
20	**Net cash and cash equivalents comprise:**		
	Cash at bank and in hand	**86.6**	61.5
	Short-term deposits	**433.7**	569.1
		520.3	630.6

[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 (see note 9.3).

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 John Lewis plc (the Company) are drawn up in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and with the Companies Act 2006. 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 25 January 2020, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. 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 Company in the context of the current Coronavirus pandemic in the UK, for the reasons set out in note 1.1.1.

The Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has 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 Company financial statements.

9.2 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Group 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 policies have been consistently applied to all the years presented unless otherwise stated.

The following policy was adopted by the Company for the year ended 25 January 2020 and has had a significant impact on the Company's profit for the year, equity and disclosures:

IFRS 16 'Leases' (applicable for the period beginning 27 January 2019)

IFRS 16 'Leases' specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases'. The Company has adopted IFRS 16 from 27 January 2019 using a modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at 27 January 2019. The comparative information presented for the year ended 26 January 2019 has not been restated and therefore continues to be shown under IAS 17.
The main impact of IFRS 16 for the Company is the recognition of all future lease liabilities on the balance sheet. Corresponding right-of-use assets have also been recognised on the balance sheet representing the economic benefits of the Company's right to use the underlying leased assets. The Company's activities as a lessor are not material and therefore the Company has not recognised any changes to lessor accounting as a result of the transition to IFRS 16.

Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. This considers 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 Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Exemptions on transition to IFRS 16

On transition to IFRS 16, the Company has elected to apply the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets at the transition date;
- Using hindsight when determining the lease term where the contract contains options to break or renew; and
- For leases determined to be onerous before the transition date, relying on this assessment as an indicator of impairment as an alternative to performing an impairment review.

On transition to IFRS 16, the Company did not elect to grandfather the assessment of which contracts are leases.

IAS 17 – Operating leases

For all periods prior to 27 January 2019, the Company classified the majority of its property leases as operating leases under IAS 17. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term.
On transition to IFRS 16, these lease liabilities recognised were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at 27 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities at 27 January 2019 was 5.1%.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

9.3 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

IAS 17 – Finance leases

The Company previously held finance leases in relation to the building elements of a small number of long leasehold property leases. The land elements of these leases remained classified as operating leases under IAS 17. For all periods prior to 27 January 2019, the finance leases were on terms that transfer to the Company substantially all the risks and rewards of ownership. The accounting treatment for finance leases under IAS 17 is similar to the accounting treatment for leases under IFRS 16. Leased assets are capitalised at inception at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of the finance lease rentals is charged to the income statement and the capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

For finance leases the carrying amounts of the right-of-use assets and the lease liabilities on transition at 27 January 2019 were equal to the carrying amounts of the finance lease assets and finance lease liabilities recognised at the 26 January 2019 year-end under IAS 17.

Under IFRS 16, there is no longer a distinction between operating and finance leases. As a result, these property leases have been remeasured on transition to account for the land and building elements as part of the same lease, with future lease payments discounted at the incremental borrowing rate applicable on 27 January 2019. The existing finance lease assets and finance lease liabilities in relation to these property leases have been written off to reserves on transition.

The following table presents the reconciliation of lease liabilities at 27 January 2019:

	£m
Minimum lease payments under non-cancellable operating leases at 26 January 2019	1,668.5
Minimum lease payments under non-cancellable finance leases at 26 January 2019	23.9
Discounted using the incremental borrowing rate at 27 January 2019	1,163.4
Assessment of lease term on transition	5.5
Lease liabilities recognised at 27 January 2019	1,168.9

Transition

The opening balance sheet position as at 27 January 2019 has been restated on transition to IFRS 16. The Company recognised additional right-of-use assets and lease liabilities as well as a reduction in prepayments, deferred income and property, plant and equipment (including finance lease assets and the corresponding liabilities), recognising the difference in retained earnings. Comparative periods have not been restated.

	Increase / (decrease)
Assets:	**£m**
Property, plant and equipment – Finance lease assets	(11.1)
Right-of-use assets	1,049.8
Prepayments	(48.4)
Liabilities:	**(Increase) / decrease**
Lease liabilities – current	(25.6)
Lease liabilities – non-current	(1,143.3)
Finance lease liabilities – current	0.1
Finance lease liabilities – non-current	13.2
Deferred income – current	7.3
Deferred income – non-current	160.2
Deferred tax liabilities	(0.4)
Equity:	**(Increase) / decrease**
Retained earnings	(1.8)

The following standards, amendments and interpretations were applicable for the period beginning 27 January 2019, and were adopted by the Company for the year ended 25 January 2020. They have not had a significant impact on the Company's profit for the year, equity or disclosures:

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation**
- **IFRIC 23: Uncertainty over Income Tax Treatments**
- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**
- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**
- **Annual Improvements to IFRS Standards 2015-2017 Cycle**

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

9.3 AMENDMENTS TO ACCOUNTING STANDARDS (CONTINUED)

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 26 January 2020 onwards, which the Company has not adopted early:

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

The adoption of these standards and amendments is not expected to have a material impact on the Company's financial statements.

The Company is also currently assessing the impact of the following new standard, which has been issued and is awaiting endorsement by the European Union:

- **IFRS 17: Insurance Contracts** (applicable for the period beginning 31 January 2021)

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 £33.4m profit (2019: £59.4m loss). The prior year results included an impairment of an historic intercompany balance of £51.9m. During the year an intra-group dividend of £6.0m was received from JLP Insurance Limited (2019: £5.4m was received from Waitrose 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 Group, 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:

	2020	2019
John Lewis	**27,200**	28,100
Other	**3,300**	3,200
	30,500	31,300

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

11 PARTNERS (CONTINUED)

11.2 PARTNER PAY AND BENEFITS

Employment and related costs were as follows:

	2020 £m	2019 £m
Staff costs:		
Wages and salaries	**(705.6)**	(676.2)
Social security costs	**(67.3)**	(57.1)
Partnership Bonus	**(12.7)**	(18.2)
Employers' National Insurance on Partnership Bonus	**(1.6)**	(2.3)
Other pension expenses	**(110.0)**	(126.4)
Long leave cost	**2.4**	(5.3)
Total before Partner discounts	**(894.8)**	(885.5)
Partner discounts (excluded from revenue)	**(47.0)**	(47.6)
	(941.8)	(933.1)

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

	2020 £m	2019 £m
Salaries and short-term benefits	**(7.9)**	(8.4)
Post-employment benefits[1]	**(1.6)**	(1.6)
Termination benefits[2]	**(2.2)**	–
	(11.7)	(10.0)

[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 Group's Divisional Management Boards 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.

11.3 DIRECTORS' EMOLUMENTS

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

12 INTANGIBLE ASSETS

	Computer software			
	Purchased	Internally developed	Work in progress	Total
Intangible assets	**£m**	**£m**	**£m**	**£m**
Cost				
At 27 January 2018	120.5	323.8	188.8	633.1
Additions[1]	–	–	104.5	104.5
Transfers	37.6	185.3	(222.9)	–
Disposals and write-offs	(5.3)	(10.8)	(16.1)	(32.2)
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**
Accumulated amortisation				
At 27 January 2018	(77.6)	(183.3)	–	(260.9)
Charge for the year[2]	(30.5)	(60.0)	–	(90.5)
Disposals and write-offs	5.2	10.6	–	15.8
At 26 January 2019	(102.9)	(232.7)	–	(335.6)
Charge for the year[2]	(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)**
Net book value at January 2018	42.9	140.5	188.8	372.2
Net book value at January 2019	49.9	265.6	54.3	369.8
Net book value at January 2020	**37.6**	**239.9**	**54.8**	**332.3**

1 For the year ended 25 January 2020, additions for the year include the non-cash capital expenditure accrual on intangible assets of £0.3m (2019: £3.8m).
2 For the year ended 25 January 2020, this includes an impairment charge of £10.3m (2019: £1.8m) to intangible assets.

Intangible assets principally relate to customer and distribution projects with useful economic lives of up to 10 years.

There are three individually significant assets within the total carrying amount of intangible assets as at 25 January 2020: two are customer projects (£134.0m, 2019: £139.0m) and one relates to a distribution project (£73.5m, 2019: £87.6m).

During the year to 25 January 2020 computer systems valued at £67.6m (2019: £222.9m) were brought into use. This covered a range of website, personnel and information technology infrastructure applications, with asset lives ranging from 3 to 10 years.

Amortisation of intangible assets is charged within operating expenses.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

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 27 January 2018	957.6	944.9	64.9	1,967.4
Additions[1]	2.9	–	68.1	71.0
Transfers	52.5	57.6	(110.1)	–
Disposals and write-offs	(5.8)	(25.4)	(1.1)	(32.3)
Transfers to assets held for sale	(51.5)	–	–	(51.5)
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**
Accumulated depreciation				
At 27 January 2018	(315.1)	(647.3)	–	(962.4)
Charge for the year[2]	(41.4)	(75.8)	–	(117.2)
Disposals and write-offs	3.3	23.2	–	26.5
Transfers to assets held for sale	42.1	–	–	42.1
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 from assets held for sale[4]	(42.1)	–	–	(42.1)
At 25 January 2020	**(463.0)**	**(765.2)**	–	**(1,228.2)**
Net book value at January 2018	642.5	297.6	64.9	1,005.0
Net book value at January 2019	644.6	277.2	21.8	943.6
Net book value at January 2020	**566.0**	**253.2**	**32.7**	**851.9**

1 For the year ended 25 January 2020, additions for the year include the non-cash capital expenditure accrual on property, plant and equipment of £1.6m (2019: £14.2m).
2 For the year ended 25 January 2020, this includes an impairment charge of £64.5m to land and buildings (2019: £12.6m) and £13.6m to fixtures and fittings (2019: £nil).
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 (see note 9.3).
4 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. This is offset by properties with total carrying value of £1.5m which have been recorded as held for sale at year-end at 25 January 2020.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included above are land and building assets held under finance leases with a net book value of £nil (2019: £11.1m).

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, and expected sales performance and costs.

Right-of-use assets	Land and buildings £m	Total £m
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**
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)
Net book value at January 2018	–	–
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**

[1] The Company has initially applied IFRS 16 at 27 January 2019 which requires the recognition of right-of-use assets in relation to the Company's lease liabilities. As a result, at 27 January 2019, the Company recognised £1,049.8m of right-of-use assets related to those lease liabilities. The Company has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 9.3).

[2] For the year ended 25 January 2020, this includes an impairment charge of £15.3m (2019: £nil).

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

14 INVESTMENTS IN SUBSIDIARIES

The Company has the following investments at 25 January 2020.

	Shares in Group companies £m	Loan to Group companies £m	Total £m
At 27 January 2018	43.8	1,356.8	1,400.6
Movements	9.8	(275.1)	(265.3)
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**

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 35.

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 27 January 2018	2.1	1.5	3.6
Additions	–	0.5	0.5
At 26 January 2019	2.1	2.0	4.1
Additions	–	-	-
At 25 January 2020	**2.1**	**2.0**	**4.1**
Share of loss			
At 27 January 2018	(0.7)	–	(0.7)
Share of loss	(0.7)	–	(0.7)
At 26 January 2019	(1.4)	–	(1.4)
Share of loss	(0.2)	–	(0.2)
At 25 January 2020	**(1.6)**	–	**(1.6)**
At 27 January 2018	1.4	1.5	2.9
At 26 January 2019	0.7	2.0	2.7
At 25 January 2020	**0.5**	**2.0**	**2.5**

16 ASSETS HELD FOR SALE

At 25 January 2020 there were no assets recorded as held for sale.

At 26 January 2019, assets recorded as held for sale were £9.4m. Due to a change in circumstances, this has been reclassified as property, plant and equipment during the year ending 25 January 2020.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

17 INVENTORIES

Inventory	2020 £m	2019 £m
Finished goods and goods for resale	**387.3**	428.3
	387.3	428.3

The cost of inventory recognised as an expense by the Company in the year was £2,279.0m (2019: £2,344.7m). Provisions against inventories of £20.6m were charged (2019: £27.7m charged) to cost of sales.

Finished goods and goods for resale include a 'right to return goods' asset of £16.9m (2019: £20.0m). This relates to the Group's expected returns inventory based on previous rates of return.

18 TRADE AND OTHER RECEIVABLES

Trade and other receivables	2020 £m	2019 £m
Current:		
Trade receivables	**53.6**	41.8
Other receivables[1]	**88.5**	25.6
Prepayments[2]	**57.0**	63.9
Accrued income	**21.0**	17.4
	220.1	148.7
Non-current:		
Other receivables	**3.3**	4.0
Prepayments[2]	**0.9**	38.5
	4.2	42.5

[1] The Partnership 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 Partnership (see note 8.2.3). Included within other receivables is a balance of £60.1m due from John Lewis Partnership Trust Limited in relation to SIP shares in issue but not allocated to Partners. In 2019, this balance was shown net within amounts owed to parent company (2019: £45.7m) (see note 23).

[2] 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 (see note 9.3).

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 23).

Within accrued income, there is £9.7m (2019: £11.6m) 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 25 January 2020, trade and other receivables of £1.3m (2019: £2.6m) were partially or fully impaired. As at 25 January 2020, trade and other receivables of £27.5m (2019: £19.0m) were past due but not impaired. The ageing analysis of the past due amounts is as follows:

	2020 £m	2019 £m
Up to 3 months past due	**26.0**	18.7
3 to 12 months past due	**0.8**	0.3
Over 12 months past due	**0.7**	–
	27.5	19.0

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

19 SHORT-TERM INVESTMENTS

Short-term investments	2020 £m	2019 £m
Short-term investments	**306.4**	265.4

For the year ended 25 January 2020, the effective interest rate on short-term investments was 1.1% (2019: 1.0%) and these investments had an average maturity of 62 days (2019: 116 days).

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents	2020 £m	2019 £m
Cash at bank and in hand	**86.6**	61.5
Short-term deposits[1]	**433.7**	569.1
	520.3	630.6

For the year ended 25 January 2020, the effective interest rate on short-term deposits was 0.7% (2019: 0.6%) and these deposits had an average maturity of 3 days (2019: 3 days).

21 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	**739.7**	**86.6**	**826.3**
Other financial assets	**0.4**	**–**	**0.4**
At 25 January 2020	**740.1**	**86.6**	**826.7**
Sterling financial assets	834.1	61.5	895.6
Other financial assets	0.4	–	0.4
At 26 January 2019	834.5	61.5	896.0

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 stores and cash in transit, primarily made up of credit and debit card transactions not yet settled.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

22 BORROWINGS AND OVERDRAFTS

	2020 £m	2019 £m
Current:		
$8^3/_8$% bonds, 2019	–	(275.0)
Unamortised bond transaction costs	–	0.1
	–	(274.9)
Non-current:		
Medium term loan	**(125.1)**	(125.0)
$6^1/_8$% bonds, 2025	**(300.0)**	(300.0)
$4^1/_4$% bonds, 2034	**(300.0)**	(300.0)
Unamortised bond transaction costs	**9.4**	10.4
Fair value adjustment for hedged element on bonds	**(2.8)**	0.8
	(718.5)	(713.8)

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

In April 2019, the Company repaid the 2019 bond amounting to £275.0m.

23 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Current:		
Trade payables	**(424.8)**	(416.2)
Amounts owed to parent company[1]	**(111.6)**	(65.1)
Amounts owed to Group companies	**(510.9)**	(482.8)
Other payables	**(129.7)**	(133.8)
Other taxation and social security	**(133.7)**	(142.2)
Accruals	**(108.4)**	(131.9)
Deferred income[2]	**(78.0)**	(81.0)
Partnership Bonus	**(29.0)**	(39.2)
	(1,526.1)	(1,492.2)
Non-current:		
Deferred income[2]	**(38.5)**	(203.1)
	(38.5)	(203.1)

1 The Partnership 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 Partnership (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 £60.1m 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 £44.1m relates to SIP shares held directly by Partners. In 2019, this balance was shown net and included only amounts in relation to SIP shares held directly by Partners (2019: £58.5m).

2 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 (see note 9.3).

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

24 LEASE LIABILITIES

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

	2020 £m	2019 £m
Depreciation charge for right-of-use assets (excluding impairment) (see note 13)	**(44.4)**	–
Interest expense on lease liabilities	**(60.8)**	–
Expense relating to short-term leases	**(0.7)**	–
Expense relating to leases of low value assets that are not shown above as short-term leases	**(1.2)**	–
Expense relating to variable lease payments not included in lease liabilities	**(4.0)**	–
Total cash outflow for leases comprising interest and capital payments	**(89.1)**	–
Additions to right-of-use assets (see note 13)	**20.2**	–
Gains/(losses) arising from sale and leaseback transactions	**–**	–
Carrying amount of right-of-use assets (see note 13)	**1,000.2**	–
Income from sub-leasing right-of-use assets	**0.4**	–

Prior to 27 January 2019, the Company recognised finance leases in line with IAS17. Assets which were leased on terms that transferred substantially all the risks and rewards of ownership to the Company were treated as finance leases and capitalised at the inception of the lease at the fair value of the leased liabilities or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of finance lease rentals was charged to the income statement. From 27 January 2019, the Company no longer recognises finance leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16. Therefore, the future aggregate minimum lease payments payable under finance leases as at 25 January 2020 are deemed to be £nil.

Finance lease liabilities	**2020 £m**	2019 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	–	(0.4)
Later than one year but not more than five	–	(1.6)
More than five years	–	(21.9)
	–	(23.9)
Future finance charge on finance leases	–	10.6
Present value of finance lease liabilities	–	(13.3)
Of which:		
Not later than one year	–	(0.1)
More than five years	–	(13.2)

Prior to 27 January 2019, the Company recognised operating leases in line with IAS 17. Leases where the Company does not retain substantially all the risks and rewards of ownership of the asset were classified as operating leases. Operating lease rental payments were recognised as an expense in the income statement on a straight-line basis over the lease term.

From the 27 January 2019, the Company no longer recognises operating leases in line with IAS 17 and instead recognises right-of-use assets and lease liabilities in line with IFRS 16. Therefore the future aggregate minimum lease payments payable under non-cancellable operating leases as at 25 January 2020 are deemed to be £nil.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

24 LEASE LIABILITIES (CONTINUED)

Future aggregate minimum lease payments under non-cancellable operating leases, payable:	**2020 £m**	2019 £m
Within one year	–	(68.7)
Later than one year and less than five years	–	(263.9)
After five years	–	(1,335.9)

Future aggregate minimum lease payments under non-cancellable operating leases, payable after five years:	**2020 £m**	2019 £m
Later than five years and less than 10 years	–	(292.8)
Later than 10 years and less than 20 years	–	(464.8)
Later than 20 years and less than 40 years	–	(366.8)
Later than 40 years and less than 80 years	–	(199.4)
After 80 years	–	(12.1)
	–	(1,335.9)

25 PROVISIONS

	Long leave £m	**Customer refunds £m**	**Insurance claims £m**	**Reorganisation £m**	**Other £m**	**Total £m**
At 26 January 2019	(140.1)	(34.3)	(13.2)	(24.1)	(15.5)	(227.2)
Charged to income statement	(28.9)	(28.8)	(8.0)	(31.9)	(5.9)	(103.5)
Released to income statement	7.3	–	–	11.4	0.9	19.6
Utilised	8.2	34.3	4.7	23.1	0.9	71.2
At 25 January 2020	**(153.5)**	**(28.8)**	**(16.5)**	**(21.5)**	**(19.6)**	**(239.9)**
Of which:						
Current	(34.5)	(28.8)	(4.5)	(21.5)	(9.1)	(98.4)
Non-current	(119.0)	–	(12.0)	–	(10.5)	(141.5)

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 our branch, distribution and retail operations as well as head office and central function restructuring.

Other provisions include property related costs and pay provisions.

26 DEFERRED TAX

26.1 DEFERRED TAX

Deferred tax is calculated on temporary differences using a rate of 19.0% where assets or liabilities were expected to reverse during the accounting period to 25 January 2020, 17.33% for those expected to reverse during the accounting period to 30 January 2021 and 17.0% for those expected to reverse in later periods.

The movement on the deferred tax account is shown below:

	2020 **£m**	2019 £m
Opening asset	**73.6**	135.2
Adjustment on initial application of IFRS 16[1]	**(0.4)**	–
Adjusted opening asset	**73.2**	–
(Charged)/credited to income statement	**(5.1)**	0.3
Credited/(charged) to other comprehensive income/(expense)	**33.5**	(61.9)
Closing asset	**101.6**	73.6

[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 (see note 9.3).

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 27 January 2018	(36.1)	(2.9)	(5.6)	–	(44.6)
Credited to income statement	4.3	0.1	–	–	4.4
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)**

[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 (see note 9.3).

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

26.1 DEFERRED TAX (CONTINUED)

Deferred tax assets	Capital gains tax on land and buildings £m	Pensions and provisions £m	Other £m	Total £m
At 27 January 2018	12.8	160.4	6.6	179.8
Charged to income statement	(1.6)	(1.6)	(0.9)	(4.1)
Charged to other comprehensive (expense)/income	–	(55.3)	(6.6)	(61.9)
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**

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.

26.2 FACTORS AFFECTING TAX CHARGES IN CURRENT AND FUTURE YEARS

Legislation has been enacted (Finance Act 2016) to reduce the corporation tax rate from 19.0% to 17.0% from 1 April 2020. However the Government announced in the Spring Budget on 11 March 2020 that the corporation tax rate will remain at 19.0%. At the balance sheet date legislation had not yet been amended and therefore the substantively enacted rate for the purposes of determining the deferred tax recognition rate for assets and liabilities expected to reverse in periods overlapping 1 April 2020 and later remains at 17.0%.

If the corporation tax rate of 19.0% had been substantively enacted as at 25 January 2020 the deferred tax movement would have been as follows:

	2020 £m
Opening net asset	**73.6**
Adjustment on initial application of IFRS 16[1]	**(0.4)**
Adjusted opening net asset	**73.2**
Charged to income statement	**(3.1)**
Credited to other comprehensive income	**42.2**
Closing net asset	**112.3**

[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 (see note 9.3).

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

27 MANAGEMENT OF FINANCIAL RISKS

27.1 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.

27.2 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 £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	**(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)**

	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	(988.7)	(999.9)	(274.9)	–	(725.0)
Interest payments on borrowings	–	(345.6)	(57.2)	(34.2)	(254.2)
Finance lease liabilities	(13.3)	(23.9)	(0.4)	–	(23.5)
Trade and other payables	(1,269.0)	(1,269.0)	(1,269.0)	–	–
Derivative financial liabilities					
Derivative contracts – receipts	–	455.6	360.4	70.6	24.6
Derivative contracts – payments	–	(455.9)	(360.1)	(72.3)	(23.5)
At 26 January 2019	(2,271.0)	(2,638.7)	(1,601.2)	(35.9)	(1,001.6)

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.

27.3 INTEREST RATE RISK

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

27.4 FOREIGN CURRENCY RISK

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

27.5 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:

	2020	2019
	£m	£m
Trade and other receivables	**145.4**	71.4
Short-term investments	**306.4**	265.4
Cash and cash equivalents	**520.3**	630.6
Derivative financial instruments	**4.9**	7.0
	977.0	974.4

27.6 ENERGY RISK

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

27.7 SENSITIVITY ANALYSIS

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

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

28.1 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 25 January 2020, 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

28.2 FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is as follows:

				2020				2019
	Assets	**Liabilities**	**Recognised in Other Comprehensive Income**	**Recognised in Income Statement**	Assets	Liabilities	Recognised in Other Comprehensive Income	Recognised in Income Statement
Fair value of derivative financial instruments	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Non-current:								
Currency derivatives – cash flow hedge	**0.1**	**(3.0)**	**(2.9)**	**–**	0.2	(1.4)	(1.2)	–
Other derivatives	**–**	**(0.9)**	**–**	**(0.9)**	–	(0.6)	–	(0.6)
	0.1	**(3.9)**	**(2.9)**	**(0.9)**	0.2	(2.0)	(1.2)	(0.6)
Current:								
Currency derivatives – cash flow hedge	**2.0**	**(18.2)**	**(16.2)**	**–**	6.4	(5.9)	0.5	–
Other derivatives	**2.8**	**(0.5)**	**–**	**2.3**	0.4	(1.6)	–	(1.2)
	4.8	**(18.7)**	**(16.2)**	**2.3**	6.8	(7.5)	0.5	(1.2)

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.

28.3 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):

		2020		2019
		£m		£m
	CV	**FV**	CV	FV
Financial liabilities				
Listed bonds	**(590.6)**	**(645.7)**	(864.5)	(883.4)

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

29 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 25 January 2020	**(1,641.4)**	**(224.6)**	**(1,866.0)**
At 26 January 2019	(778.4)	(224.3)	(1,002.7)

30 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS BEFORE PARTNERSHIP BONUS

	2020[1] **£m**	2019 £m
Profit/(loss) before tax	**63.2**	(48.3)
Dividend income received	**(6.0)**	(5.4)
Amortisation and write-offs of intangible assets[2]	**114.0**	106.9
Depreciation[3]	**263.5**	117.2
Share of loss of joint venture (net of tax)	**0.2**	0.7
Net finance costs	**118.0**	66.2
Partnership Bonus	**14.3**	20.5
Fair value losses on derivative financial instruments	**0.3**	2.1
Loss on disposal of property, plant and equipment and intangible assets	**1.1**	3.4
Decrease/(increase) in inventories	**42.1**	(26.4)
(Increase)/decrease in receivables	**(65.5)**	31.3
Increase/(decrease) in payables	**100.2**	(79.7)
(Decrease)/increase in retirement benefit obligations	**(234.6)**	33.4
Decrease in provisions	**(5.9)**	(39.8)
Cash generated from operations before Partnership Bonus	**404.9**	182.1

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. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognises depreciation and interest costs, instead of an operating lease expense (see note 9.3).
2 Includes net impairment charges. See note 12.
3 Includes net impairment charges. See note 13.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

31 COMMITMENTS AND CONTINGENCIES

At 25 January 2020 contracts had been entered into for future capital expenditure of £9.7m (2019: £19.4m) of which £8.1m (2019: £18.1m) relates to property, plant and equipment and £1.6m (2019: £1.3m) relates to intangible assets.

32 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 £73.8m (2019: £71.6m). This represents a plan asset for the Company accounts which is offset against the defined benefit obligation of £417.4m (2019: £468.1m). The retirement benefit obligation of the Company as at 25 January 2020 was £343.6m (2019: £396.5m). Note 6.1 of the consolidated financial statements details the financial assumptions used.

33 SHARE CAPITAL

	2020		2019	
	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

34 RELATED PARTY TRANSACTIONS

34.1 LOAN FROM JOHN LEWIS PARTNERSHIP PLC

The loan from John Lewis Partnership plc has been disclosed in note 23. The loan is non-interest bearing with no specific repayment terms.

34.2 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 £12.1m (2019: £11.6m), purchase of goods for resale totalling £53.2m (2019: £12.3m), the supply of administrative and other shared services totalling £64.0m (2019: £146.5m) and the hire of vehicles totalling £30.7m (2019: £28.1m).
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 35. Loans to joint ventures are disclosed in note 15.

34.3 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 £90,000 (2019: £84,000). The Company also made donations totalling £nil (2019: £0.7m) to the John Lewis & Partners Foundation.

35 SUBSIDIARIES AND RELATED UNDERTAKINGS

The Company has a number of subsidiaries and related undertakings which contribute to the overall profitability of the Group.

Subsidiaries and related undertakings as at 25 January 2020 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[(i)]	Investment holding undertaking	Scotland[6]	Partnership interest	100%
JLP Scottish Partnership[(ii)]	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 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

35 SUBSIDIARIES AND RELATED UNDERTAKINGS (CONTINUED)

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 therefore not appended the accounts of JLP Scottish Partnership and JLP Scottish Limited Partnership to these accounts. Separate accounts for these partnerships are not required to be filed with the Registrar of Companies.

Statement of Directors' responsibilities in respect of the Annual Report and Accounts

The Directors are responsible for preparing 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 and parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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;
- state whether they have been prepared in accordance with 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 Patrick Lewis

Directors, John Lewis plc

15 April 2020

KPMG

Independent auditor's report

to the members of John Lewis plc

1. Our opinion is unmodified

We have audited the financial statements of John Lewis plc ("the Company" or "the Partnership") for the year ended 25 January 2020 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 Partnership's* and of the parent Company's affairs as at 25 January 2020 and of the Partnership's profit for the year then ended;

— the Partnership's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

— the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 committee.

In this report we use the term "Partnership" to mean the "Group"

We were first appointed as auditor by the shareholders on 8 June 2016. The period of total uninterrupted engagement is for the four financial years ended 25 January 2020. 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 listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£13.5m (2019: £13.5m) 0.13% of Partnership revenue (2019: 5% of the 3-year average of consolidated profit before tax, Partnership bonus and exceptional items	
Coverage	99% (2019: 99%) of Partnership revenue	
Key audit matters		**vs 2019**
Recurring risks	Valuation of Property, plant and equipment and right-of-use assets	▲
	Net defined benefit obligation	◀▶
	New: IFRS 16 – Lease arrangements (transition)	
	Long leave provision	◀▶
	Fair value of free-service warranty	◀▶
Event driven	Brexit	◀▶
	Going concern	▲
Parent Company specific risk	Valuation of investments	◀▶

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

Key audit matters are those matters that, in our professional judgment, 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 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
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to pages 9 to 12 (principal risks), pages 12 to 13 (viability statement) and pages 63 to 71 of the Partnership's Annual Report and Accounts (Audit and Risk Committee report).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in property, plant and equipment (including related assets in cash-generating units); net defined benefit obligation, long leave provision, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements below. All of these depend on assessments of the future economic environment and the Partnership's future prospects and performance. In addition we are required to consider the other information presented in the Annual Report and Accounts including the principal risks disclosure and the viability statement and to consider the Directors' statement that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Partnership's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Partnership and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. — **Sensitivity analysis:** When addressing carrying amount of PPE, net defined benefit obligation and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on carrying amount of PPE, net defined benefit obligation and other areas, we considered all of the Brexit related disclosures together, including those in the Strategic report, comparing the overall picture against our understanding of the risks. **Our results:** — As reported under property, plant and equipment (including related assets in cash-generating units); , net defined benefit obligation and long leave provision, we found the resulting estimates and related disclosures in relation to going concern to be acceptable (2019 result: acceptable). However, no audit should be expected to predict to unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern *Refer to page 25 to 26 (financial disclosures) and pages 63 to 71 of the Partnership's Annual Report and Accounts (Audit and Risk Committee report).*	**Disclosure quality** 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. 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. The risks most likely to adversely affect the Partnership's and Company's available financial resources over this period were: — 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 — The impact of Brexit on supply chain, recruitment needs and cost base both relating to foreign exchange and import/export tariffs. 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.	Our procedures included: — **Test of details:** Evaluated the process and models the Directors used in its assessment, including use of the work of specialists. — **Test of details**: Evaluated whether the assumptions are realistic and achievable and consistent with the external and/or internal 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. — **Historical comparisons:** Considering 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; — **Our expertise:** Consultation with our restructuring specialists to assess the Directors' going concern assessment. — **Our sector expertise:** Challenged management's plans for future actions, and verified the reliability and relevance of data used including plans to refinance external debt against our own knowledge of the industry. — **Assessing transparency**: Assessing the reasonableness of the going concern disclosure. **Our results:** — We found the going concern disclosure without any material uncertainty to be acceptable (2019 result: acceptable).

	The risk	Our response
Valuation of Property, plant and equipment and right-of-use assets £5,390.3 million (2019: £3,809.7 million) *Refer to page 65 of the Partnership's Annual Report and Accounts (Audit and Risk Committee report), page 52 (accounting policy) and pages 53 to 54 (financial disclosures)*	**Forecast-based valuation** The Partnership has significant property, plant and equipment (PPE) and right-of-use assets (ROUAs) held on its consolidated balance sheet. There is uncertainty associated with the outcome of Brexit and the effects of continuing market competition that could have implications on the underlying trading of the Partnership and hence impact the recoverable amount of its PPE and ROUAs which are each one of the Partnership's branches. In particular, the continuing decelerated sales growth and margins achieved, in the John Lewis & Partners division, have increased the risk this year, whereas in previous years it was specific to the Waitrose & Partners division. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The key assumptions used in the value-in-use (VIU) calculations for estimating the recoverable amount are expected sales and costs in the short-term cash-flow forecasts, the long-term (LT) growth rate and the discount rate. 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. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	**Our procedures included:** — **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, when applicable. — **Our sector experience:** We evaluated assumptions used, in particular those relating to forecast revenue growth and profit margins for each Waitrose & Partners and John Lewis & Partners branch. We also challenged the Directors as to the achievability of their forecasts and business plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors). — **Benchmarking assumptions:** We compared the Directors' assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, 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 in its CGUs. **Our results:** — We found the resulting estimate of the recoverable amount of PPE and ROUAs in each CGU to be acceptable (2019 result: acceptable).

	The risk	Our response
Net defined benefit obligation **£417.4 million (2019: £468.1 million)** *Refer to page 68 (accounting policy) and pages 69 to 76 (financial disclosures)*	**Subjective valuation** 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, mortality rates and salary increases) can have a material impact on the gross liability. A triennial valuation for the pension scheme's year-ended 31 March 2019 is currently ongoing. This required a new set of membership data be provided to the actuary which is also used by the Partnership in calculating the total defined benefit obligation, with roll forward assumptions applied to 25 January 2020 in line with accepted valuation techniques. Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner) errors in the membership records could result in a material misstatement if not completely and accurately included in the calculation of the gross liability. 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% (£1.8 billion) of the total pension assets held. The asset categories within this where significant audit effort and judgement was focused were investment property, special purpose investment vehicles and private equity investments. 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.	**Our procedures included:** — **Benchmarking assumptions:** We used our actuarial specialists to challenge the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases). This involved comparing the assumptions to available market data, our expectation and to other similar UK pension schemes' assumptions. — **Assessing base data:** We have confirmed the data used in the current year valuation is consistent with that prepared at the triennial valuation as at 31 March 2019. We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2019. — **Our valuation expertise:** For hard-to-value plan assets, we used our own property valuation specialists to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. For private equity funds 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 deficit to these assumptions. **Our results:** — We found the valuation of the net defined benefit obligation to be acceptable (2019 result: acceptable).

	The risk	Our response
IFRS 16 – Lease arrangements (Transition) **£2,094.9 million** *Refer to page 66 of the Partnership's Annual Report and Accounts (Audit and Risk Committee report), pages 27 to 28 and 65 (accounting policy) and pages 66 to 67 (financial disclosures)*	**Subjective judgement** Following the adoption of IFRS 16, the recognition of future lease liabilities and corresponding assets has changed with the Partnership bringing onto its balance sheet £2.1 billion of future lease liabilities and £1.9 billion of right-of-use assets. There is a risk that existing leases subject to transition are not completely identified, that transition date recognition and measurement adjustments are not accurately recorded and transition disclosures are incomplete, inaccurate or not fairly presented. Furthermore, on transition and for new leases entered into the year, to determine the future lease liability and base for calculating the right-of-use asset the Partnership has made a number of assumptions about individual leases including lease term, discount rate and future rental payments when there is a variable element dependent on an index or rate. Due to it being the first year of application and the magnitude of the balance, there is a risk that inaccurate input of the key data elements or incorrect selection of assumptions such as changes in the index or rate applicable could result in a material misstatement. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the lease liability and corresponding right-of-use asset has a potential range of outcomes greater than our materiality for the financial statement as a whole.	Our procedures included: — **Assessing methodology and assumptions:** We have evaluated the reasonableness of management's key judgements made in preparing the transition adjustments, specifically lease term, discount rate and variable rates. This included considering the appropriateness of the selection of accounting policies based on the requirements of IFRS 16, our business understanding and industry practice. — **Assessing base data:** We have tested the completeness and accuracy of the underlying data used in preparing the adjustment through agreeing information to the original contract or most recent invoice for rental payments and reviewing the trial balance for payments which may suggest a lease contract is in place. — **Independent re-performance:** We have re-calculated the lease liability using an independent lease tool and the underlying data inputs. — **Assessing disclosures:** We also considered the adequacy of the Partnership's disclosures in respect of the transition to IFRS 16. **Our results:** — We found the lease liability and right-of-use asset on transition date and for the year to be acceptable.
Long leave provision **£153.5 million (2019: £141.8 million)** *Refer to page 67 of the Partnership's Annual Report and Accounts (Audit and Risk Committee report), page 60 (accounting policy) and page 60 (financial disclosures)*	**Subjective estimate** 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 rates and salary increases can have a material impact on the liability. 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.	**Our procedures included:** — **Benchmarking assumptions:** We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range; — **Sensitivity analysis:** We also performed sensitivity analysis over these assumptions. **Our results:** — From the evidence obtained, we considered the level of provisioning to be acceptable (2019 result: acceptable).

	The risk	Our response
Fair value of free-service warranty **£42.4 million (2019: £50.0 million)** *Refer to page 67 of the Partnership's Annual Report and Accounts (Audit and Risk Committee report), page 36 (accounting policy) and pages 37 to 38 (financial disclosures)*	**Subjective estimate** The free-service warranty in John Lewis & Partners, principally for certain electrical products, is considered a separate performance obligation and the timing of revenue recognition is different from that of the product sale itself. Accordingly, the Partnership allocates a portion of the product's full sale value (consideration received) to providing such warranty. This allocation is based on the stand-alone selling prices of the product and the relative fair value of the warranty. The amount allocated to free warranties is then recorded as deferred income on the balance sheet and released to revenue over the period of the warranty. In order to determine the fair value of the extended free warranty, management uses a cost-plus approach, which comprises of a valuation technique that reflects the amount that would be required to replace or repair the service capacity of the good sold. Therefore, a significant level of estimation is required for the assumptions around frequency and value of the expected future costs of servicing the free warranty and use of appropriate historical data to form the assumptions. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the fair value of free service warranty 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.	Our procedures included: — **Assessing methodology and assumptions:** We have considered the underlying calculations for the free-service warranty calculation, including assessing the underlying data/historical data used and comparing this to source documentation, the methodology and appropriateness of assumptions used in calculating the cost to repair for item sold in the period to a margin is applied. In particular, we evaluated whether the source of the historical data was reasonable based on our understanding of the industry and business and performed trend analyses in respect of historical cost per unit. — **Sensitivity analysis:** We have performed sensitivity analysis on the assumptions made, including the product repair and replace frequency rates. — **Independent re-performance:** We have re-performed the calculation using the underlying data inputs. **Our results:** — We found the amounts of revenue deferred at 25 January 2020 to be acceptable (2019 result: acceptable).
Parent company financial statements – Valuation of investments **£941.9 million (2019: £1,135.3 million)** *Refer to page 96 (financial disclosures)*	**Low risk, high value** 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 judgement. 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 effect on our overall parent company audit.	Our procedures included: — **Test of details:** Comparing the investment carrying values to the net assets of the investment 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. — **Assessing subsidiary audits:** Assessing the work performed over the subsidiaries and considering the results of the work on those subsidiaries' profit and net assets. **Our results:** — We found assessment of the carrying value of investments to be acceptable (2019 result: acceptable).

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 £10,151.3 million, of which it represents 0.13% (2019: 5.0% of the 3-year average of Partnership profit before tax, normalised to exclude Partnership Bonus and exceptional items).

We consider the Partnership revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Partnership profit before tax, normalised to exclude Partnership bonus and exceptional items.

Materiality for the parent company financial statements as a whole was set at £11.7 million (2019: £12.0 million) determined with reference to a benchmark of company total assets, of £4,673.6 million, of which it represents 0.3% (2019: 0.5%).

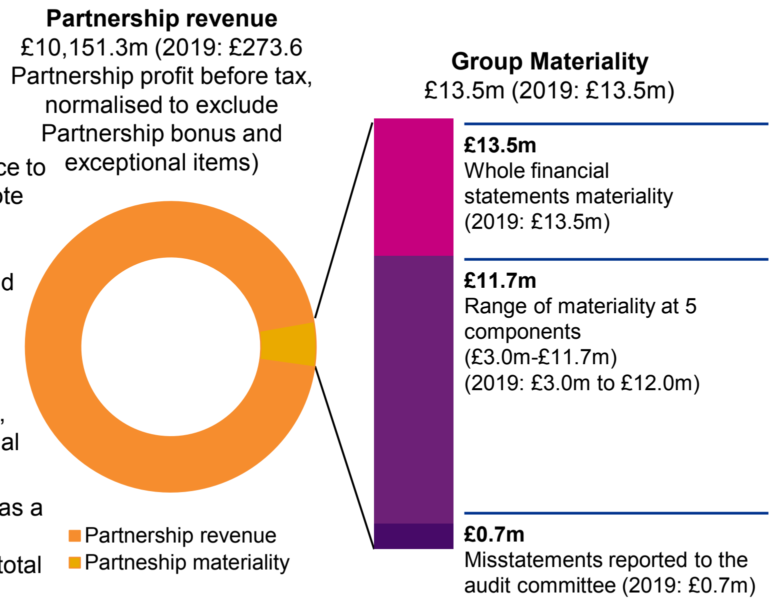
We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.7 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

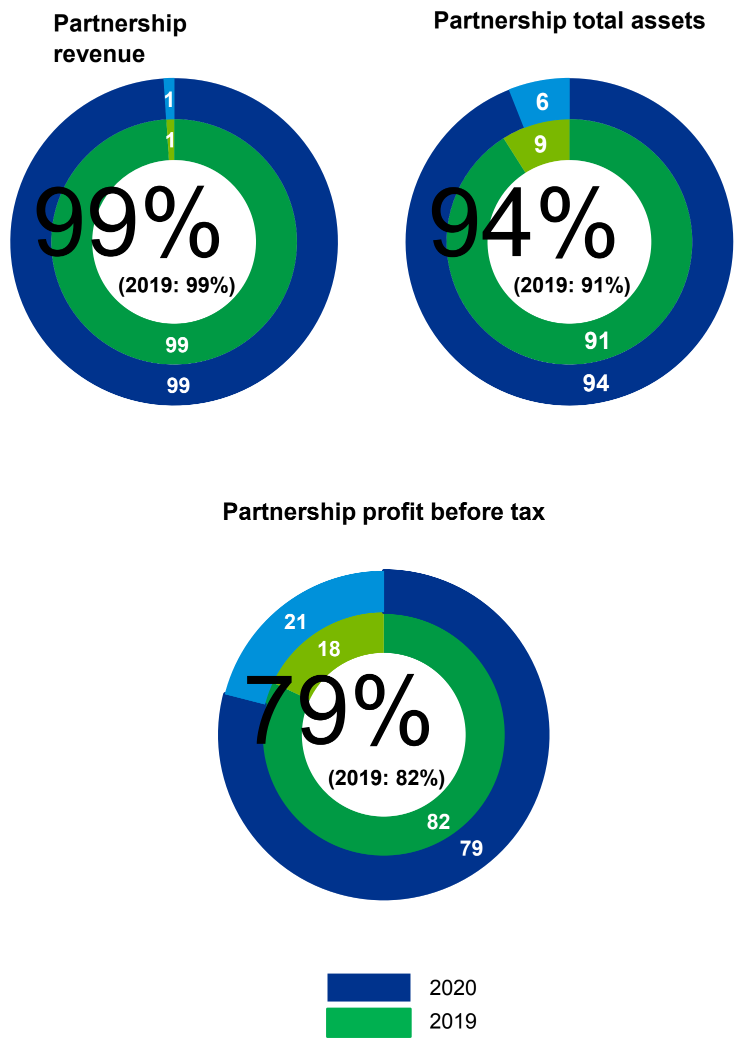
Of the Partnership's 17 (2019: 16) reporting components, we subjected 5 (2019: 5) to full scope audits for Partnership purposes. In addition, 1 component (2019: 1) was subjected to specified risk-focused audit procedures. The latter was not individually significant enough to require a full scope audit 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 percentages illustrated opposite.

The remaining 1% of total Partnership revenue, 21% of Partnership profit before tax and 6% of total Partnership assets is represented by 11 reporting components, none of which individually represented more than 6% of any of total Partnership revenue, Partnership profit before tax or total Partnership 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 (2019: 2 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. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Partnership or to cease their operations, and as they have concluded that the Company's and the Partnership'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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Partnership or the company will continue in operation.

We have identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Partnership and the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual 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.

6. 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 109, 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 other irregularities (see below), 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, other irregularities 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.

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Irregularities – ability to detect

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 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. 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 Partnership is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), pensions legislation, distributable profits 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 Partnership 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 or the loss of the Partnership's licence to operate. 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 require 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. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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 laws and regulations (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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. 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 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.

M Maloney

Michael Maloney

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

15 April 2020

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